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Web Proof Information Pack of

Fornton Group Limited

(a company incorporated in Bermuda with limited liability)

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CONTENTS

This Web Proof Information Pack contains the following information relating to the Company extracted from an amended version of the post-hearing proof of the draft document:

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SUMMARY

OVERVIEW

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

The major subsidiaries of the Group are Nice Regent, Fornton Holdings, Fornton Knitting and Fung Ching. The former three subsidiaries were incorporated in Hong Kong whilst Fung Ching is a WFOE established in the PRC. The production of the Group was carried out at (i) the Processing Factory under the Processing Agreements since 1996 and (ii) the FC Factory since 2006. The FC Factory mainly carries out the pre-laundering procedures including knitting, linking and handstitching with the support of the Processing Factory for the remaining procedures. The Processing Factory carries out the entire production process with certain production procedures including but not limited to knitting, linking and handstitching being outsourced to other production factories in the PRC (i.e. the subcontractors) on a case by case basis so as to achieve production optimization of the Group and meet the growing demand of the Group's products from the customers.

It is expected that the new production factory with annual production capacity of approximately 4,188,000 pieces of apparel to be constructed on the Land at Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC acquired by the Group will commence operation by the fourth quarter of 2012 so as to substitute the existing production premises of the FC Factory and expand the production scale of the Group to two complete production lines comprising the existing one in the Processing Factory and another in the new production factory. The Group intends to continue with the processing arrangement with the PRC Processing Party for production carried out in the Processing Factory provided that there is no significant change in the regulatory and economic environment. The Group will operate the new production factory on its own without adopting any new processing arrangement with any other PRC parties.

PRODUCTS

The Group's knitwear products can be divided into three categories namely womenswear, menswear and kidswear and the Group's revenue during the Track Record Period was mainly derived from the sales of womenswear, representing approximately 89.4%, 91.8%, 91.6% and 89.5% respectively of the Group's turnover for the Track Record Period. Set out below are the Group's turnovers by product categories during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Turnover										
Womenswear	283,129	89.4	279,590	91.8	326,383	91.6	57,259	99.8	44,013	89.5
Menswear	32,616	10.3	23,584	7.8	29,739	8.4	107	0.2	5,167	10.5
Kidswear	830	0.3	1,325	0.4	—	—	—	—	—	—
Total	316,575	100.0	304,499	100.0	356,122	100.0	57,366	100.0	49,180	100

During the Track Record Period, the sales volume of the Group amounted to approximately 2.4 million, 2.9 million, 3.0 million units and 0.5 million units of finished apparel goods. Set out below are the total sales quantities of womenswear, menswear and kidswear during the Track Record Period:

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

To maintain the Group's turnover throughout the financial crisis triggered at the end of 2008, the Group adjusted the selling price of the products in 2009 and thus the selling price decreased by approximately 21.6% for the year ended 31 December 2009. Rallying on the recovery of the global economy in 2010, the average selling price of the products increased by approximately 12.4% for the year ended 31 Decemeber 2010. For the four months ended 30 April 2011, the average selling price was HK$109, representing a slight increase of approximately 3.8% as compared to corresponding period in previous year but a decrease of approximately 7.6% as compared to that for the year ended 31 December 2010 as the average selling price of the winter collection of the Group's products is normally higher than that of summer collection. Set out below are the average selling prices for womenswear, menswear and kidswear during the Track Record Period:

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

Notes:

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

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

CUSTOMERS

Since the commencement of its manufacturing business, the Group has been able to secure international fashion groups with wide variety of products marketed under numerous well-recognised labels and sold in their franchised or chain stores located all over the world. As at the Latest Practicable Date, the labels of the apparel manufactured by the Group included but are not limited to Jones New York which are under top five customers and other labels such as Strellson and Anne Klein. Jones Group and another international apparel group are the two most substantial customers contributing to the Group's business throughout the Track Record Period in terms of the revenue generated from their sales and their long-term business relationships with the Group.

Location of the customers

The Group's customers are mainly international apparel groups headquartered in USA and the European countries such as Germany and Switzerland whilst their products are sold in their respective chain stores or franchised stores under their labels, department stores or other specialty retailers around the world.

Set out below are the Group's turnovers by headquarter's locations of the customers during the Track Record Period:

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

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

Top five customers

The top five customers in terms of the revenue generated for the Group during the Track Record Period have international well-known labels and have maintained long-term business relationships with the Group for more than 5 years and 10 years respectively. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, the aggregate revenue generated from the top five customers of the Group amounted to approximately 88.4%, 89.9%, 89.4% and 93.9% of the Group's total revenue respectively and the Group's largest customer accounted for approximately 52.6%, 55.4%, 56.3% and 70.0%, respectively, of the Group's total revenue during the Track Record Period. Details of the top five customers are set out in the paragraph headed "top five customers" under the section headed "Business" in the Document.

As the Group's customers only enter into short-term purchase orders instead of long-term sales contracts with the Group, there is no assurance that the relationship between the Group and any customer will continue on the same or similar terms, and the customers may terminate their respective relationships with the Group at any time as they wish in the future. Accordingly, the volume of the customers' purchase orders and the product mix may vary significantly from period to period, and it is difficult to forecast the number of future orders. As a result, the Group's business, results of operations and financial condition may vary from period to period depending on the volume of purchase orders from customers, whether existing or new. To reduce reliance on the key customers and to avoid significant impact on the Group's performance in the event that the major customers reduce their order amount, the Group has strived for extending its business reach to the PRC market and attracting more potential customers such as the international apparel groups which labels are recognised but under-penetrated in the PRC. As at the Latest Practicable Date, the Group has secured sales orders in an aggregate amount not less than HK$20 million from customers in the PRC.

PROCESSING FACTORIES AND PRODUCTION CAPACITIES

All the Group's products have been produced at the Processing Factory since 1996 and the FC Factory since 2006 with some procedures outsourced to the subcontractors. As at the Latest Practicable Date, the FC Factory had 140 sets of computerised knitting machines and 177 sets of manually operated knitting machines whilst the Processing Factory had 9 sets of computerised knitting machines and 225 manually operated knitting machines. All the equipments and machineries were sourced from Italy, Germany and the PRC.

Set out below are the production capacity of the Processing Factory and the FC Factory:

	Estimated annual production capacity (pieces of WIPs/apparels in thousands) *(Note 2)*			**Approximate output volume for the year ended 31 December (pieces of WIPs/apparels in thousands)** *(Note 3)*			**Approximate utilisation rate for the year ended 31 December (%)** *(Note 4)*			**Approximate utilisation rate for the four months ended 30 April (%)** *(Note 4)*
	2008	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**	**2011**
Production of WIPs:										
The FC Factory *(Note 1)*	921	921	1,126	213	173	182	23.1	18.8	16.2	22.7
Production of finished goods										
The Processing Factory	1,601	1,601	1,805	2,370	2,888	3,020	N/A	N/A	N/A	N/A

Notes:

1. The FC Factory only carries out pre-laundering procedures and thus its output is in terms of pieces of swatches.

2. The annual maximum output of the Processing Factory is estimated based on the assumption that the output is solely produced by the Processing Factory with part of its knitting procedure outsourced to the FC Factory without outsourcing to other subcontractors. The Processing Factory operates for 302 days per year and 9 hours per day.

3. As the Processing Factory outsources various production procedures (including but not limited to knitting, linking and handstitching procedures) to the subcontractors in the PRC, the annual output of the Processing Factory is enlarged and thus larger than the estimated production capacity thereof.

4. It is not feasible to calculate the utilisation rate of the Processing Factory without taking into account the output of the subcontractors as the Company is not able to quantify the exact amount of output contributed by the subcontractors from the annual output of the Processing Factory.

For the three years ended 31 December 2010, the low utilisation rate of the FC Factory was mainly due to the labour shortage prevailing in the Guangdong Province arising from substantive outflow of workers back to their hometown following the outburst of the financial crisis in 2008 and thus some pre-laundering procedures of the Group's production were outsourced to the subcontractors instead of being carried out in the FC Factory. After the installation of an additional 120 computerised knitting machines in the second quarter of 2011, it is expected that the demand for production labour of the Group would decrease. As such, the Directors believe that the labour shortage situation prevailing in the Guangdong Province will not adversely affect the operation of the Group.

In December 2010, the Group acquired a piece of industrial land with a site area of approximately 30,400.50 sq.m. located at Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC. According to the Group's preliminary development plan, the Group intends to establish a new production factory on this piece of land with an annual production capacity of approximately 4,188,000 pieces of knitwear products with a view to substituting the FC Factory and enlarging the production capacity of the Group. The Group will continue to adopt the processing arrangement with the PRC Processing Party for production currently carried out in the Processing Factory so long as there is no significant change in the regulatory and economic environment. The Group will operate the new production factory on its own without adopting any new processing arrangement with any other PRC parties.

It is expected that the new production factory will commence operation by the fourth quarter of 2012.

Defects on the property titles of the leased factories and the mitigation measures

According to the due diligence exercise conducted by the PRC Legal Advisers, each of the lessor of the production premises for the Processing Factory and the FC Factory has not obtained the relevant state-owned land use rights certificates and the building ownership certificates in respect of the production premises for the Processing Factory and the FC Factory, and thus it is not allowed to lease such production premises. Details of the aforesaid are set out in the paragraph headed "Title defects of the Processing Factory" and "Title defects of the FC Factory" under the section headed "Business" in the document.

Mitigation measures

The Processing Factory and FC Factory have been in operation on the premises mentioned above for over 15 years and 5 years respectively and have never received any removal orders from the lessors and any relevant PRC authorities during the operation. Accordingly, the Directors consider that the possibility of receiving removal orders from relevant authorities is low and the [●] lawyers as to the PRC laws concur with their view. However, to prepare for the possible disruption of production in the Processing Factory and the FC Factory due to the risks mentioned in the paragraph headed "The FC Factory" and "The Processing Factory" in the section headed "Business" of the Document, the Group has devised several mitigation measures including (i) entering into of the legally binding Letters of Intent (Yu Xing) with Yu Xing and the legally binding Letters of Intent (He He) with He He to lease from Yu Xing the Spare Factory (Yu Xing) and the production facilities stated therein and from He He the Spare Factory (He He) and the production facilities stated therein respectively in the event that Fung Ching and/or the Processing Factory are required to cease occupation of the properties due to the aforesaid defects within the period from the date of the agreements to 31 December 2012. If He He or Yu Xing (as the case may be) decides to lease the Spare Factory (He He or Yu Xing) to parties other than the Group, He He or Yu Xing has to give 2-month notice to the Group in writing; (ii) outsourcing the production to other production factories in the PRC and; (iii) establishing a new production factory on the Land with an annual production capacity of approximately 4,188,000 pieces of knitwear products, which exceeds the aggregate production capacity of the Processing Factory and the FC Factory, and will come into operation by the fourth quarter of 2012. In the event that the Processing Factory and FC Factory are required to cease occupation of the properties, the Group will relocate the exisiting production factilities to the spare factories. The Directors do not expect any loss in revenue arising from relocation as the Group can subcontract its production to the subcontractors within short notice period. The Directors also consider that the Group will not incur any significant relocation cost and it is expected that it will only take several days to relocate the production of either the FC Factory or the Processing Factory to the Spare Factory (Yu Xing) or the Spare Factory (He He). Details of the mitigation measures are set out in paragraph headed "Mitigation measures" under the section headed "Business" in the document.

EXPANSION PLAN

The expansion plan to be carried out by the Group includes (i) establishing a production plant with annual production capacity of approximately 4,188,000 pieces in Yangwu Village, Dalang Town, Dongguan City, Guangdong Province; (ii) acquiring production machinery and office equipment for the new production plant; (iii) acquiring 220 sets of computerized knitting machines for existing production factories; (iv) establishing new ERP System to integrate different functions of the Group including but not limited to sales, purchase, production, warehouse and finance; and (v) enhancing sales and merchandising, and design and development capabilities including participating in fashion exhibitions twice a year, designing company brochure, acquiring computer software for design and development and hiring additional staff.

Despite the recent stagnant economic environment in some European countries and USA, the slowing down of the growth of the PRC apparel retail industry and the increase in labour wage in the PRC market, the Directors believe that the Group's operation and performance would not be adversely affected taking into account that (i) the Group's customers sold its products to customers around the world instead of to USA and those European countries being affected by recent debt crisis; (ii) the PRC's apparel industry is enormous in terms of its estimated industry value of approximately US$193,000 million by 2014 as set out in the section headed "Industry Overview" of this document; (iii) the PRC economy has maintained a robust growth in the past few years in terms of the GDP, consumption expenditures and disposable income for urban households; and (iv) the recent market condition of the PRC's apparel industry is still robust in view of the aggregate retail value of the apparel products of approximately RMB372.7 billion for the six months ended 30 June 2011 as quoted from the website of Ministry of Industry and Information Technology of the People's Republic of China, representing an increase of approximately 23.9% as compared to corresponding period in previous year. As such, the Directors believe that the expansion plan to be carried out by the Group, in particular, increasing the production scale of the Group, can be justified.

As at the Latest Practicable Date, the Group has secured sales orders in an aggregate amount not less than HK$20 million from customers in the PRC. To facilitate the expansion of the Group in particular entering into the PRC apparel market, the Group has also appointed a business development director of the sales and merchandising department to attract more potential customers through its network in addition to recruitment of additional administrative staff for the sampling department with a view to facilitating and monitoring the production of samples collection to be provided to the customers for their reference and thus enhancing the pre-order services provided by the Group.

PROCESSING AGREEMENTS

The Group commenced its knitwear production through the Processing Factory since 1996 under the 3rd Supplemental Processing Agreement, pursuant to which Nice Regent took up the rights and obligations of the 2nd Former Foreign Party under the Master Processing Agreement (as amended by the 1st and 2nd Supplemental Processing Agreements).

Major responsibilities of the contracting parties

The current parties to the Processing Agreements are the PRC Processing Party and the Processing Factory (as the processing party in the PRC), the Former PRC Processing Party (as the business agent) and Nice Regent (as the foreign party). Set out below are the major responsibilities of the contracting parties under the Processing Agreements:

(i) the PRC Processing Party and the Processing Factory shall provide processing services of knitted products to Nice Regent at the processing fees to be agreed to 31 October 2013;

(ii) the PRC Processing Party shall provide electricity, labour and production premises for the production;

(iii) Nice Regent shall provide all raw materials, accessories and packing materials necessary for the production;

(iv) Nice Regent shall bear the responsibility arising from the defective products subsequent to the delivery from the Processing Factory and take out insurance coverage for the machinery, raw materials, accessories, packing materials and the WIPs; and

(v) the Former PRC Processing Party by virtue of its role as processing party to former processing agreements and its governing authority shall oversee the whole processing arrangement in the name of business agent.

Detailed responsibilities of the contracting parties of each of the Processing Agreements and the material terms thereof are set out in the paragraph headed "Processing Agreements" under the section headed "Business" in this document.

Processing Fees

The Processing Fees paid by the Group to the PRC Processing Party during the Track Record Period amounted to approximately HK$27.7 million, HK$27.0 million, HK$31.2 million and HK$9.9 million respectively. Pursuant to the Processing Agreements, the Processing Fees shall be determined based on the labour cost, utilities costs and the rental of the Processing Factory after negotiation between the parties to the Processing Agreements.

The following table sets out the breakdown of the Processing Fees paid by the Group during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Processing Fees										
Cost of sales										
— Direct labour	14,507	52.3	13,730	50.8	15,207	48.8	3,149	40.3	3,985	40.4
— Utilities	3,107	11.2	2,538	9.4	2,768	8.9	740	9.5	779	7.9
— Indirect labour	1,889	6.8	1,992	7.4	2,105	6.7	717	9.2	808	8.2
— Processing Factory's rental	1,688	6.1	1,619	6.0	1,640	5.3	541	6.9	566	5.8
	21,191	76.4	19,879	73.6	21,720	69.7	5,147	65.9	6,138	62.3
Administrative expenses										
— Staff costs	6,537	23.6	7,147	26.4	9,456	30.3	2,663	34.1	3,719	37.7
Total	27,728	100.0	27,026	100.0	31,176	100.0	7,810	100.0	9,857	100.0

Right of termination or renewal

Pursuant to the Processing Agreements, parties thereto shall have the right to terminate and/or renew the Processing Agreements through negotiations six months prior to the expiry date of the Processing Agreements.

COMPETITIVE STRENGTHS

The Group believes that it has several business strengths that set it apart from its competitors and enable it to continue to grow and enhance its profitability. The competitive strengths of the Group are summarised below:

(i) Established relationships with premium apparel brand owners

(ii) Comprehensive quality assurance checks for products and recognition from customers

(iii) Strong and established product design and development capability

(iv) Strong relationships with suppliers and subcontractors

(v) Expertise in apparel manufacturing

(vi) Computerisation of the knitting process

(vii) Focus on premium yarn with higher margins and development of new blending of yarn

(viii) Strong growth prospects through multiple channels

Details of the competitive advantages are set out in the "Business" section of this document.

BUSINESS STRATEGIES

In view of the rapidly growing PRC economy and the emergence of fashion awareness of the middle-class in the PRC, the Group intends to extend its customer base to the PRC apparel brand owners and other European markets such as Portugal and Italy and enhance its position as an ODM knitwear manufacturer in the knitwear industry. To achieve these goals, the Group intends to:

(i) enhance the sales and merchandising department by recruiting experienced staff for the sale and merchandising department;

(ii) enhance the design capability of knitwear products by recruiting experienced designers to increase the number of sample collections designed by the Group per year and establishing a showroom on a larger scale in its headquarter for showcasing more samples, collections of the knitwear products and swatches of different knitting patterns designed and developed by the Group for promotion and marketing purpose;

(iii) enhance the development capability of yarn by encouraging direct development and design of new blending of yarn for the knitwear products and arranging its staff from sales and merchandising department and design and development department to participate in more events relating to the updating of market information and latest fashion trends such as international fashion shows and trade shows;

(iv) enhance the production capacities by acquiring additional 100 sets of computerised knitting machines on top of the existing 149 sets of computerised knitting machines to produce more complicated or sophisticated patterns and styles of knitwear products; and

(v) fully implement ERP System for better management control and enhance corporate governance.

Details of the business strategies of the Group are set out in the sub-section headed "Business Strategies" under the section headed "Business" in this document.

TRADING RECORD

The summary of the historical combined financial information below should be read in conjunction with the section headed "Accountants' Report" in Appendix I to this document, which has been prepared in accordance with HKFRSs. The summary of the historical combined statement of comprehensive income data for the years ended 31 December 2008, 2009 and 2010 and the four months ended 30 April 2011 and the summary of the historical combined financial position data as at 31 December 2008, 2009 and 2010 and 30 April 2011 set forth below have been derived from the section headed "Accountants' Report" in Appendix I to this document, which includes the combined financial information prepared by the Group and the opinion thereon issued by SHINEWING, both of which are presented in Appendix I to this document.

Combined Statements of Comprehensive Income

	Year ended 31 December			Four months ended 30 April	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	316,575	304,499	356,122	57,366	49,180
Cost of sales	(233,957)	(235,932)	(273,113)	(47,025)	(38,172)
Gross profit	82,618	68,567	83,009	10,341	11,008
Other operating income	3,786	6,260	6,421	258	1,939
Selling and distribution expenses	(9,759)	(10,659)	(13,589)	(2,424)	(2,418)
Administrative expenses	(40,748)	(37,077)	(41,857)	(12,020)	(15,088)
Finance costs	(441)	(110)	(407)	(15)	(157)
Profit/(loss) before taxation	35,456	26,981	33,577	(3,860)	(4,716)
Income tax expense	(8,472)	(4,774)	(5,610)	707	555
Profit/(loss) for the year	26,984	22,207	27,967	(3,153)	(4,161)
Exchange differences arising on translation of foreign operations and total other comprehensive income/(expenses)	153	20	(264)	39	373
Total comprehensive income/ (expenses) for the year, net of tax	27,137	22,227	27,703	(3,114)	(3,788)
Earnings (losses) per Share (HK cents)					
Basic and diluted	11.3	7.1	9.0	(1.0)	(1.3)

Combined Statements of Financial Position

	Year ended 31 December			As at 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Plant and equipment	7,831	5,650	15,319	19,815
Deposit paid for acquisition of land use rights	10,047	10,005	—	—
Prepaid lease payment	—	—	13,293	13,841
Deferred taxation	—	—	—	595
	17,878	15,655	28,612	34,251
Current assets				
Inventories	20,299	23,760	23,115	42,137
Prepaid lease payment	—	—	302	315
Trade and other receivables	52,891	57,308	49,229	36,073
Amounts due from related companies	4,704	13,867	—	—
Amounts due from directors	3,757	1,887	—	—
Derivative financial instruments	—	—	—	812
Pledged bank deposits	4,485	1,622	—	3,000
Bank balances and cash	43,550	52,997	51,562	43,226
	129,776	151,441	124,208	125,563
Current liabilities				
Trade and other payables	41,545	41,781	40,050	34,347
Dividends payables	—	—	4,830	4,830
Amounts due to directors	12,725	12,440	—	3,569
Bank borrowings	1,023	498	9,555	21,788
Obligations under finance leases — due within one year	300	210	210	210
Income tax payables	2,630	722	1,411	1,523
	58,223	55,651	56,056	66,267
Net current assets	71,553	95,790	68,152	59,296
Total assets less current liabilities	89,431	111,445	96,764	93,547

	Year ended 31 December			As at 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank borrowings	—	—	32,466	33,232
Obligations under finance leases — due after one year	803	578	368	298
Deferred taxation	79	91	151	26
	882	669	32,985	33,556
	88,549	110,776	63,779	59,991
Capital and reserves				
Share capital	2,000	2,000	2,023	2,023
Reserves	86,549	108,776	61,756	57,968
	88,549	110,776	63,779	59,991

Leveraging on the long-term business relationships with the major customers and its reputation for quality, the Group's turnover increased by approximately 17.0% for the year ended 31 December 2010 as compared with the year ended 31 December 2009. For each of three years ended 31 December 2010, the Group's turnover amounted to approximately HK$316.6 million, HK$304.5 million and HK$356.1 million respectively, representing a slight decrease of approximately 3.8% in 2009 as compared to 2008 and a significant increase of approximately 17.0% in 2010 as compared to 2009, and the total comprehensive income for the year amounted to approximately HK$27.1 million, HK$22.2 million and HK$27.7 million respectively, representing a decrease of approximately 18.1% in 2009 as compared to 2008 and an increase of approximately 24.6% in 2010 as compared to 2009. Despite the decrease in comprehensive income due to the cumbrance from the financial crisis triggered at the end of 2008, the Group was back on the growing track in 2010, gaining an annual growth rate of approximately 24.6% for its comprehensive income for the year ended 31 December 2010.

For the four months ended 30 April 2011, the Group's turnover and comprehensive expenses amounted to approximately HK$49.2 million and HK$3.8 million respectively, representing a decrease of 14.3% and an increase of approximately 21.6% respectively as compared to the corresponding period in 2010. The decrease in turnover for the four months ended 30 April 2011 was primarily due to decrease in sales of womenswear of approximately 23.1% resulting from less orders placed by customers offering lower profit margin and the increase in orders from customers offering higher profit margin is not sufficient to cover the decrease in those orders of lower profit margin during such transitional period of the Group's focus from customers offering lower profit margin to those medium to high-end customers offering higher profit margin. The gross profit of the Group for the four months ended 30 April 2011 increased by approximately 6.5% to HK$11.0 million and the gross profit margin of the Group for the same period also increased from approximately 18.0% to 22.4%. The net loss of the Group for the same period was mainly attributable to the industry convention for knitwear products as first quarter of the year is a conventional slack season for knitwear products whilst the increase in net loss of the Group was mainly attributable to the increase in administrative expenses of approximately

25.5% arising from recruitment of senior management of the Group including engagement of a chief financial officer for preparing the [●], a business development director of sales and merchandising department and a purchasing manager of yarn department for attracting more potential PRC's customers for the Group through their networks and monitoring the supply of raw materials respectively, and administrative staff of the Processing Factory mainly responsible for managing the sampling production of the Group and monitoring the production orders, yarn sourcing and other aspects with a view to attracting more potential customers by the provision of comprehensive pre-order services, for example, production of new sample collections to the potential customers. For the four months ended 30 April 2011, [●] expenses of approximately HK$0.3 million were charged to the statement of comprehensive income of the Group, while no such expenses was charged to the Group's accounts for the year 31 December 2010 as only minimal work was performed by each party during the year 2010 and the [●] timetable was still uncertain.

In May and June 2011, the Group has received more orders of higher profit margin and thus the Directors expect that the Group's turnover and its results for these two months would be significantly improved as compared to previous four months and are in line with the general growing trend as in previous financial years. Based on the historical trend and subject to the global economic environment in the fourth quarter of 2011, the Directors expect that the Group's turnover and gross profit for the year ending 31 December 2011 would be in line with the trend in previous year. For the period from 1 May 2011 to 30 September 2011, the Group has received confirmed sales orders of not less than HK$106 million and expected not less than 60% of which would be recognised as revenue in the fourth quarter of 2011. The Group also expected that selling and distribution expense and the administrative expense for the year ending 31 December 2011 will both increase as a result of, among other things, more samples provided to the potential customers and [●] expenses relating to the engagement of the professionals incurred for preparing for the [●] respectively. Given the estimated increase in administrative expenses (which are expected to be mainly attributable to the increase in staff costs and [●] expenses of approximately HK$1.9 million and approximately HK$7.9 million respectively) to be charged to the statement of comprehensive income of the Group for the year ending 31 December 2011 of approximately HK$11.6 million represent approximately 41.5% of the net profit of Group for the year ended 31 December 2010, the Directors expect that the net profit of the Group for the year ending 31 December 2011 will underperform the results in previous year significantly. In view of the recent economic market downturn in the USA and some European countries and the slowing down of the growth of the PRC's apparel retail market, the Directors expect that overall market environment may impose pricing pressure on the Group's products and the sales orders in the fourth quarter of 2011 may be affected thereby. As at the Latest Practicable Date, the Directors are not aware of any cancellation or slowing down of orders or default payment by the customers or has it experienced any difficulty to obtain banking facilities.

DIVIDEND POLICY

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

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

DEFINITIONS

In this document, the following expressions shall have the meanings set forth below unless the context requires otherwise.

"1st Former Foreign Party"	永好貿易公司 (Wing Ho Trading Co.*), the first former foreign party to the Processing Agreements, who transferred its obligations and rights under the Master Processing Agreement to the 2nd Former Foreign Party pursuant to the 1st Supplemental Processing Agreement and is an Independent Third Party
"1st Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement dated 16 April 1990 entered into amongst, the 2nd Former Foreign Party, the Processing Factory and the Former PRC Processing Party pursuant to which, among other things, the 1st Former Foreign Party was changed to the 2nd Former Foreign Party together with a change of authorised representative
"2nd Former Foreign Party" or "Yick Sang"	香港益生實業織造廠 (Hong Kong Yick Sang Industrial Knitting Factory*), the second former foreign party to the Master Processing Agreement (as amended by the 1st Supplemental Processing Agreement), who transferred its obligations and rights under the Master Processing Agreement (as amended by the 1st and 2nd Supplemental Processing Agreements) to Nice Regent pursuant to the 3rd Supplemental Processing Agreement and is an Independent Third Party
"2nd Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement (as amended by the 1st Supplemental Processing Agreements) dated 10 May 1991 entered into amongst the 2nd Former Foreign Party, the Processing Factory and the Former PRC Processing Party pursuant to which the Master Processing Agreement (as amended by the 1st Supplemental Processing Agreement) was agreed to be extended for an additional five years to 30 October 1996
"3rd Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement (as amended by the 1st and 2nd Supplemental Processing Agreements) dated 21 April 1995 entered into amongst the Processing Factory, Nice Regent and the Former PRC Processing Party pursuant to which, among other things, the Processing Factory changed its name from Yangpo Yonghao to its current name and the rights and obligations of Yick Sang were transferred to Nice Regent

"4th Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement (as amended by the 1st , 2nd and 3rd Supplemental Processing Agreements) dated 5 May 1995 entered into amongst Nice Regent, the Former PRC Processing Party and the Processing Factory pursuant to which Nice Regent agreed to provide a series of production machinery for carrying out the production in the Processing Factory
"5th Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement (as amended by the 1st, 2nd, 3rd and 4th Supplemental Processing Agreements) dated 9 September 1996 entered into amongst Nice Regent, the Former PRC Processing Party, the Processing Factory and the PRC Processing Party pursuant to which, among other things, (i) the Former PRC Processing Party agreed to transfer its rights and obligations under the Master Processing Agreement (as amended by the 1st, 2nd, 3rd and 4th Supplemental Processing Agreements) to the PRC Processing Party; (ii) the Former PRC Processing Party shall become the business agent of the processing arrangement thereunder; and (iii) the Master Processing Agreement (as amended by the 1st, 2nd, 3rd and 4th Supplemental Processing Agreements) was agreed to be extended for an additional five years to 31 October 2001
"6th Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement (as amended by the 1st, 2nd, 3rd, 4th and 5th Supplemental Processing Agreements) dated 28 May 2001 entered into amongst Nice Regent, the Former PRC Processing Party, the Processing Factory and the PRC Processing Party pursuant to which the Master Processing Agreement (as amended by the 1st, 2nd, 3rd, 4th and 5th Supplemental Processing Agreements) was agreed to be extended for an additional five years to 31 October 2006
"7th Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement (as amended by the 1st, 2nd, 3rd, 4th, 5th and 6th Supplemental Processing Agreements) dated 20 September 2006 entered into amongst Nice Regent, the Former PRC Processing Party, the Processing Factory and the PRC Processing Party pursuant to which the Master Processing Agreement (as amended by the 1st, 2nd, 3rd, 4th, 5th and 6th Supplemental Processing Agreements) was agreed to be extended for an additional two years to 31 October 2008

DEFINITIONS

"8th Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement (as amended by the 1st, 2nd, 3rd, 4th, 5th, 6th and 7th Supplemental Processing Agreements) dated 29 July 2008 entered into amongst Nice Regent, the Processing Factory, the PRC Processing Party and the Former PRC Processing Party pursuant to which the Master Processing Agreement (as amended by the 1st, 2nd, 3rd, 4th, 5th, 6th and 7th Supplemental Processing Agreements) was agreed to be extended for an additional two years to 31 October 2011
"9th Supplemental Processing Agreement"	the supplemental agreement to the Master Processing Agreement (as amended by the 1st, 2nd, 3rd, 4th, 5th, 6th, 7th and 8th Supplemental Processing Agreements) dated 23 June 2011 entered into amongst Nice Regent, the Processing Factory, the PRC Processing Party and the Former PRC Processing Party pursuant to which the Master Processing Agreement (as amended by the 1st, 2nd, 3rd, 4th, 5th, 6th, 7th and 8th Supplemental Processing Agreements) was agreed to be extended for an additional two years to 31 October 2013
"associate(s)"	has the meaning ascribed thereto under the [●] Rules
"Baishigang Village Committee"	東莞市常平鎮白石崗村村民委員會 (Dongguan Changping Baishigang Village Committee*)
"Bermuda Companies Act" or "Companies Act"	the Companies Act 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time
"Board"	the board of Directors
"Business Day"	any day (other than a Saturday, Sunday and public holidays) in Hong Kong on which licensed banks in Hong Kong are open generally for normal banking business
"BVI"	the British Virgin Islands
"Bye-laws"	the bye-laws of the Company adopted on [●] 2011 and as amended from time to time, a summary of which is set out in Appendix IV to this document
"CAGR"	compound annual growth rate
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

"Company"	Fornton Group Limited, an exempted company incorporated under the laws of Bermuda on 13 April 2011 with limited liability and, except where the context otherwise requires, all of its consolidated subsidiaries
"Company Law"	《中華人民共和國公司法》(the Company Law of the PRC*), as adopted by the Fifth Session of Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed thereto under the [●]
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the [●] and, in the context of the Company, means IAM, Ever Rosy, Premier Wise, Mr. Yam, Madam Wong and Mr. Wong
"Customs"	中國海關總署 (General Administration of Customs of the PRC*)
"Dalang Xiangwei"	東莞大朗巷尾工業開發公司 (Dongguan Dalang Xiangwei Industrial Development Company*), the PRC legal entity established on 11 January 1993, which is wholly invested by 東莞市大朗鎮巷尾社區居民委員會 (Dongguan Dalang Xiangwei Residents Committee*) (formerly known as 東莞市大朗鎮巷尾村村民委員會 (Dongguan Dalang Xiangwei Village Committee*) and 東莞市大朗鎮巷尾管理區 (Dongguan Dalang Xiangwei Administrative District*)
"Director(s)"	the director(s) of the Company
"Dongguan Customs"	中國東莞海關 (Donguan Customs House*), established in 1 July 1988 under 中國黃埔海關 (Huangpu Customs District of PRC)
"Dongguan FETC"	東莞市對外經濟貿易委員會 (Dongguan Foreign Economic and Trade Committee*)
"Dongguan FEWC"	東莞市對外經濟工作委員會 (Dongguan Foreign Economic Working Committee*)
"EIT"	企業所得税 (the PRC Enterprise Income Tax*)
"EIT Law"	《中華人民共和國企業所得税法》(the PRC Enterprise Income Tax Law*) approved during the Fifth Session of the 10th National People's Congress and became effective on 1 January 2008

DEFINITIONS

"ERP System"	the enterprise resource planning system, being a comprehensive software designed to integrate business processes and functions by permitting the sharing of common data and practices in real-time environment
"EU"	the European Union
"Euro(s)"	the lawful currency of those member states of the EU that have adopted such currency
"Ever Rosy"	Ever Rosy Limited, a company incorporated under the laws of BVI on 26 November 2010 with limited liability, the entire issued share capital of which is held by Madam Wong
"FC Factory"	the production factory located at Changping Town, Dongguan City, Guangdong Province, the PRC leased by Fung Ching
"FC Tenancy Agreements"	the tenancy agreements entered into amongst Fornton Holdings and the lessors of the FC Factory namely 卓天貿易有限公司 (Zhuo Tian Trading Ltd*), 周浩祥 (Mr. Zhou Hao Xiang) and Baishigang Village Committee on 17 November 2005, 1 December 2008 and 26 November 2010 respectively, pursuant to which the FC Factory were leased to Fung Ching at a monthly rental ranging from RMB57,600 to RMB78,000
"Former PRC Processing Party"	東莞市對外加工裝配服務公司 (Dongguan Foreign Processing Service Company*), an enterprise solely funded by the State established in the PRC and an Independent Third Party who undertook the manufacturing operations of the 1st Former Foreign Party and the 2nd Former Foreign Party, and became the business agent under the 5th Supplemental Processing Agreement since 9 September 1996
"Fornton Holdings"	Fornton Holdings Company Limited (formerly known as Landford Enterprises Limited), a company incorporated under the Companies Ordinance on 16 December 1993 with limited liability and an indirect wholly-owned subsidiary of the Company
"Fornton Knitting"	Fornton Knitting Company Limited (formerly known as Max Eagle Industrial Limited), a company incorporated under the Companies Ordinance on 1 February 1994 with limited liability and an indirect wholly-owned subsidiary of the Company
"Fung Ching"	東莞豐正針織有限公司 (Dongguan Fung Ching Knitting Company Limited*), a wholly foreign-owned enterprise established on 28 February 2006 under the laws of the PRC and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

"GDP"	gross domestic product
"Group"	the Company and its subsidiaries and, in respect of the period before the Company became the holding company of such subsidiaries, the entities which carried on the business of the present Group at the relevant time
"Headquarter Tenancy Agreement"	the tenancy agreement dated 30 March 2011 entered into between Fornton Knitting and Long Rise in respect of the leasing of the Group's headquarter in Hong Kong located at Unit A, 32nd Floor, Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong to the Group
"He He"	東莞市清溪合和毛織廠 (Dongguan Qingxi He He Knitting Factory*), a company established on 10 August 2004 and the owner of the Spare Factory (He He)
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"IAM"	Integrated Asset Management (Asia) Limited, a company incorporated under the laws of BVI on 15 February 1996 with limited liability, the entire issued share capital of which is held by Mr. Yam
"Independent Third Party(ies)"	party(ies), who is/are independent of the Company and connected persons of the Company
"Land"	a parcel of industrial land located at Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC with site area of approximately 30,400.50 sq.m. as acquired by Fung Ching from the Vendor for a total cost of approximately HK$13.9 million (including commission and other expenses)
"Latest Practicable Date"	11 October 2011, being the latest practicable date for ascertaining certain information in this document prior to its publication
"LCL"	《中華人民共和國勞動合同法》(the Labour Contract Law of the PRC*), adopted at the 28th Session of Standing Committee of the 10th National People's Congress of the PRC on 29 June 2007 and effective on 1 January 2008

DEFINITIONS

"Letters of Intent (He He)"	collectively, (i) the letter of intent in respect of an agreement of lease dated 29 March 2011 entered into between Nice Regent and He He; and (ii) the letter of intent in respect of an agreement of lease also dated 29 March 2011 entered into between Fung Ching and He He, both in resepct of the leasing of the Spare Factory (He He) and the production facilities therein by He He to Nice Regent and/or Fung Ching at a monthly rental of not more than RMB8.0 per sq.m. with an aggregate earnest money of approximately RMB220,050, half of which has been paid by Nice Regent and Fung Ching in equal shares
"Letters of Intent (Yu Xing)"	collectively, (i) the letter of intent in respect of an agreement of lease dated 9 March 2011 entered into between Nice Regent and Yu Xing; and (ii) the letter of intent in respect of an agreement of lease dated 28 March 2011 entered into between Fung Ching and Yu Xing, both in respect of the leasing of the Spare Factory (Yu Xing) and the production facilities by Yu Xing to Nice Regent and/or Fung Ching at a monthly rental of not more than RMB8.4 per sq.m. with an aggregate earnest money of approximately RMB162,968, half of which has been paid by Nice Regent and Fung Ching in equal shares
"Long Rise"	Long Rise Investment Development Limited, a company incorporated under the Companies Ordinance on 6 August 2009 with limited liability and is held in equal shares by Madam Wong and her father, and thus a connected person of the Company
"Madam Wong"	Wong Kan Kan Kandy, an executive Director and the spouse of Mr. Yam and sister of Mr. Wong
"Master Processing Agreement"	an agreement entered into amongst the Former PRC Processing Party, the Processing Factory and the 1st Former Foreign Party on 26 October 1988 pursuant to which the Former PRC Processing Party agreed to, among other things, undertake the production of the products for the 1st Former Foreign Party
"Memorandum" or "Memorandum of Association"	the memorandum of association of the Company as currently adopted
"Mr. Wong"	Wong Tat Wai, an executive Director and the brother of Madam Wong
"Mr. Yam"	Yam Tak Cheung, an executive Director and the spouse of Madam Wong

"Nice Regent"	Nice Regent Industries Limited, a company incorporated under the Companies Ordinance on 21 February 1995 with limited liability and an indirect wholly-owned subsidiary of the Company
"ODM"	original design manufacturer, a manufacturer who involves the production of and designs products for the customers
"OEM"	original equipment manufacturer, a manufacturer who involves the production of products for customers under the customers' brand names
"PBOC"	中國人民銀行 (The People's Bank of China*), the central bank of the PRC
"PRC" or "China"	the People's Republic of China which, except where the context otherwise requires and for purposes of this document only, does not include Taiwan, Hong Kong and the Macau Special Administrative Region of the People's Republic of China
"PRC GAAP"	the accounting rules and regulations in the PRC, currently consisting of the Accounting Standards for Business Enterprises and the Accounting Regulations for Financial Enterprises (2001)
"PRC Government"	the central government of the PRC including all political subdivisions (including provincial, municipal and other local or regional government entities) and organisations of such government or, as the context requires, any of them
"PRC Social Insurance Law"	《中華人民共和國社會保險法》(PRC Social Insurance Law*) adopted at the 17th Meeting of the 11th session of the Standing Committee of the National People's Congress on 28 October 2010 and effective as of 1 July 2011
"PRC Legal Advisers"	King & Wood PRC Lawyers, the legal advisers to the Company as to the PRC laws
"PRC Processing Party"	東莞市大朗外資引進公司 (Dongguan Da Lang Foreign Investment Company*), an enterprise established by 東莞市大朗鎮對外加工裝配有限公司 (Dongguan Dalang Foreign Processing Co. Ltd*) in the PRC and an Independent Third Party who undertakes the manufacturing operations of the Group pursuant to the Processing Agreement
"Premier Wise"	Premier Wise Limited, a company incorporated under the laws of BVI on 26 November 2010 with limited liability, the entire issued share capital of which is held by Mr. Wong

DEFINITIONS

"Processing Agreements"	collectively, the Master Processing Agreement and wherever applicable, the 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th and 9th Supplemental Processing Agreements
"Processing Factory"	東莞大朗巷尾豐臨針織廠 (Dongguan Da Lang Xiang Wei Fornton Knitting Factory*), the processing factory (formerly known as 東莞市大朗洋陂永好毛織廠 (Dongguan Da Lang Yangpo Yonghao Knitting Factory*) (the "Yangpo Yonghao")) established on 31 October 1988, which undertakes the manufacturing process of the knitwear products of the Group pursuant to the Processing Agreements since 1996
"Processing Factory Tenancy Agreement 1996"	the tenancy agreement dated 30 March 1996 entered into between Nice Regent and 東莞市大朗鎮巷尾管理區 (Dongguan Dalang Xiangwei Administrative District* (now known as 東莞市大朗鎮巷尾社區居民委員會 (Dongguan Dalang Xiangwei Residents Committee*))), an Independent Third Party, pursuant to which, among other things, the production premises located in Keng Wei Tang, Dongguan City, Guangdong Province, the PRC with a gross floor area of approximately 3,140 sq.m. was leased to Nice Regent at an annual rental ranging from HK$250,000 to HK$360,000 for six years to 31 December 2001
"Processing Factory Tenancy Agreement 2000"	the tenancy agreement dated 28 November 2000 (as supplemented on 23 November 2004, 14 November 2007 and 1 January 2010) entered into between Nice Regent and 東莞市大朗鎮巷尾村民委員會 (Dongguan Dalang Xiangwei Village Committee*) (now known as 東莞市大朗鎮巷尾社區居民委員會 (Dalang Xiangwei Residents Committee*), an Independent Third Party, pursuant to which production premises of an aggregate gross floor area of approximately 21,237.36 sq.m was leased to Nice Regent at a monthly rental of approximately RMB178,000

"Processing Factory Tenancy MOU 1999"	the legally binding memorandum of understanding dated 17 September 1999 entered into between Nice Regent and 東莞市大朗鎮巷尾村民委員會 (Dongguan Dalang Xiangwei Village Committee*) (now known as 東莞市大朗鎮巷尾社區居民委員會 (Dalang Xiangwei Residents Committee*) pursuant to which (i) Dalang Xiangwei agreed to build a new production plant and other ancillary facilities with an aggregate floor area of approximately 140,000 sq.m. for Nice Regent; (ii) once the new production factory and other ancillary facilities were built, Dalang Xiangwei, as the lessor, shall lease the new production premises to Nice Regent at a monthly rental ranging from RMB7.8 to RMB8.8 per sq.m.; and (iii) Nice Regent shall pay Dalang Xiangwei an earnest money of RMB500,000 (of which RMB250,000 shall be settled within 10 days from the date of signing and the remaining half shall be settled once half of the construction work of the new production factory finished), which shall be used to offset the rental from the 19th month of leasing of the new production factory
"Processing Fees"	the processing fees payable by the Group including rentals of the Processing Factory, direct and indirect labour costs, utilities costs and staff cost attributable to the production of the Group's products pursuant to the Processing Agreements, the Processing Factory Tenancy Agreement 1996 and the Processing Factory Tenancy Agreement 2000 (as the case may be)
"Reorganisation"	the reorganisation of the businesses comprising the Group, as described in the section headed "History, Reorganisation and Group Structure" in this document
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	國家外匯管理局 (the State Administration of Foreign Exchange* of the PRC)
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of nominal value of HK$0.01 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"SHINEWING"	SHINEWING (HK) CPA Limited

"Spare Factory (He He)"	the production premises of a gross floor area of approximately 13,753.1 sq.m. located at Qingxi Town, Dongguan City, Guangdong Province, the PRC and owned by He He
"Spare Factory (Yu Xing)"	the production premises of a gross floor area of approximately 9,700.5 sq.m. located at Qingxi Town, Dongguan City, Guangdong Province, the PRC and owned by Yu Xing
"sq.ft."	square feet
"sq.m."	square metres
"Tax Consultant"	SHINEWING Tax and Business Advisory Limited, an independent professional tax consultant engaged by the Company
"Track Record Period"	the three financial years of the Group ended 31 December 2010 and four months ended 30 April 2011
"United Kingdom" or "U.K."	the United Kingdom of Great Britain and Northern Ireland
"USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars"	United States dollars, the lawful currency of USA
"Valuer"	Jones Lang LaSalle Limited
"VAT"	中國增值稅 (the PRC Value Added Tax*)
"Vendor"	東莞美德家庭製品有限公司 (Dongguan Mei De Home Appliances Ltd*), being the previous owner of the Land, which entered into a sale and purchase agreement dated 6 August 2010 with Fung Ching pursuant to which Fung Ching agreed to purchase the land use rights of the Land
"Wide Reach"	Wide Reach Limited, a company incorporated under the laws of BVI on 29 September 2010 and a wholly-owned subsidiary of the Company
"WIP(s)"	work-in-progress, the semi-products produced throughout the pre-laundering production process including but not limited to knitted garments, handstitched garments and washed garments
"WFOE"	wholly foreign-owned enterprise
"WTO"	the World Trade Organisation

DEFINITIONS

"Yu Xing"	東莞市瑜興貿易有限公司 (Dongguan Yu Xing Trading Limited*), a company established in the PRC on 26 September 2001 and the owner of the Spare Factory (Yu Xing)
"%"	per cent.

* denotes an English translation of a Chinese name and is for identification purposes only. If there is any inconsistency between the Chinese name and the English translation, the Chinese version shall prevail.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, including, without limitation, words and expressions such as "expect", "believe", "plan", "intend", "project", "anticipate", "may", "will", "would" and "could" or similar words or statements, in particular, in the section headed "Business" and "Financial Information" in this document in relation to future events, the Group's future business or other performance and development, the future development of the Group's industry and the future development of the general economy of the Group's key markets and the global economy.

These statements are based on numerous assumptions regarding the Group's present and future business strategy and the environment in which the Group will operate in the future. Forward-looking statements reflecting the Group's current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document, and the following:

- the business strategy and plans of operation of the Group
- the capital expenditure plans
- the operations and business prospects of the Group
- the ability to increase manufacturing capacity and efficiency
- the regulatory environment for the apparel industry in general
- future developments and outlooks in the global apparel industry, and in particular in the PRC, USA and the European countries

The Directors confirm that these forward-looking statements are made after due and careful consideration. Subject to the requirements of applicable laws, rules and regulations, the Company does not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way the Company expects or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

In this document, statements of or references to the Group's intentions or any intention of the Directors are made as at the date of this document. Any such intentions may change in light of future developments.

RISKS RELATING TO THE GROUP'S BUSINESS

The Group's operation results are mainly subject to several risk factors which can be categorised in the following areas: (i) risks relating to the Group; (ii) risks relating to the apparel manufacturing industry; (iii) risks relating to the PRC and (iv) risks relating to the [●], which are summarised as follows:

RISKS RELATING TO THE GROUP

Reliance on several major customers

The Group's five largest customers, all being Independent Third Parties, are well recognised apparel brand owners with headquarters located in the USA and the European countries, together accounted for approximately 88.4%, 89.9%, 89.4% and 93.9%, respectively of the Group's total turnover and the Group's largest customer accounted for approximately 52.6%, 55.4%, 56.3% and 70.0%, respectively, of the Group's total turnover for each of the three years ended 31 December 2010 and the four months ended 30 April 2011.

The Group has developed business relationships with its top five customers for a period ranging from 6 to over 10 years. The Group only enters into short-term purchase orders instead of long-term sales contracts with its customers. There is no assurance that the agreements between the customers and the Group will continue on the same or similar terms, and the customers may terminate their respective relationships with the Group at any time as they wish in the future. Accordingly, the volume of the customers' purchase orders and the product mix may vary significantly from period to period, and it is difficult to forecast the number of future orders. As a result, the Group's business, results of operations and financial condition may vary from period to period and be determined by the volume of purchase orders from the existing and new customers.

Reliance on the consumer spending level around the world, especially in USA and Europe

Most of the customers of the Group are located in USA and the European countries whilst their products are sold in their respective chain stores or franchised stores under their labels, department stores and other specialty retailers around the world. According to a research report issued by Datamonitor in December 2010, the USA and European apparel retail market in aggregate accounted for approximately 66.9% of the global apparel retail value forecast for the year 2009. The Group's performance and profitability are dependent on the consumer consumption level and the macroeconomic conditions around the world especially in USA and the European countries. According to the Group's expansion plan, it intends to penetrate into the PRC market in view of estimated growing demand driven by the expanding population of the style conscious class in the PRC. There are many factors affecting the level of consumer spending, including but not limited to, disposal income, interest rates, currency exchange rates, recession, inflation, political uncertainty, taxation, tariff regime, stock market performance, unemployment level and general consumer confidence. In particular, the recent downgrade of the long-term sovereign credit rating of U.S. from AAA to AA+ by Standard & Poor's Ratings Services ("S&P") may impose higher costs of borrowing on the corporations and individuals in the USA and depreciation of the U.S. dollars relative to other currencies and hence the imported apparel products may become more expensive to the U.S. customers. Besides, the outbreak of the European debt crisis and the downgrade of credit ratings of Italy by S&P may also have negative impact on the consumer spending level in the Europe. Any further worsening of the general economic conditions caused by the U.S. credit rating downgrade and the European debt crisis may cause slowing down of orders from the U.S. and European customers, potential delay and/or default in payment by the customers, and cutting or reducing the banking facilities of the Group by the financial institutions. All these potential events may have a negative impact on the Group's performance and profitability.

Future expansion plans are subject to uncertainties and risks

The Group has set out its future plans in the section headed "Future plans" in this document. Whether the Group's future plans can be implemented successfully may be beyond the Group's control and some future events may affect the smooth running of the expansion plan such as change in costs related to the changes in compliance with the environmental laws, rules and regulations, delays in obtaining the necessary licences and approvals from the government.

The Group also plans to secure more sales and has been in frequent communication with the potential customers such as the PRC local high-end branded products retailers and international brands retailers which intend to establish sales channel in the PRC market in respect of the style, design, type, quality and pricing of the potential sales orders. Some of the potential customers have exchanged specific requirements with the Group and have considered the designs recommended by the Group. However, in view of the possible uncertainty of the PRC future economic environment, there is no guarantee that the Group can secure more sales from the new markets with margin up to the estimation of the Group even though the Directors estimate a growing demand for consumption as driven by the expanding population of the style conscious class in the PRC after spending on the marketing and development.

Reliance on the processing arrangements under the Processing Agreements and the Processing Factory

During the Track Record Period and up to the Latest Practicable Date, the Group's production was carried out in, among other premises, the premises of the Processing Factory under the Processing Agreements, details of which are set out in the paragraph headed "Production" in the section headed "Business" in this document. Given that the premises of the Processing Factory forms part of the production capacity of the Group and before the estimated commencement of operation of a new production factory by the fourth quarter of 2012 as set out in the section headed "Future plans" in this document, the operations and profitability of the Group could be adversely and materially affected if the counterparties to the Processing Agreements are in breach of the Processing Agreements, or otherwise the use or operations of the premises of the Processing Factory by the Group is prohibited or restricted for any reason, or there occurs any change in the relevant PRC laws and regulations which may adversely affect the operations of the premises of the Processing Factory.

Besides, should there be any disastrous events beyond the control of the Group, including but not limited to riots and fire, occurring at or affecting the Processing Factory or in the vincinity of the Processing Factory, which is located in Xiangwei Village, Hangwei District, Dongguan City, Guangdong Province, the PRC, the production activities of the Group would be adversely affected.

Reliance on the PRC Processing Party

Under the Processing Agreements, the PRC Processing Party is responsible for, among other things, providing the production plant, utility, and labour and management personnel for the production of the knitwear products. Details of the obligations of the PRC Processing Party are set out in the paragraphs headed "The Processing Factory" and "Processing Agreements" in the section headed "Business" in this document. Any breach by the PRC Processing Party of its obligations under the Processing Agreements could have a material adverse effect on the Group's business. Further, in the event that the PRC Processing Party takes any action that is contrary to the Group's instructions, requests, policies or objectives, or becomes unable or unwilling to fulfill its obligations under the processing arrangement, or encounters financial or any other difficulties, the operations of the Group would be adversely affected.

Reliance on subcontractors

Certain manufacturing steps of the Group were outsourced to numerous independent subcontractors by the Processing Factory. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, through the engagement of the subcontractors by the Processing Factory, subcontracting fees paid by the Group represented approximately 31.1%, 36.6%, 38.8% and 41.5% of the Group's cost of sales respectively and there were approximately 168, 149, 173 and 85 subcontractors responsible for the production of the Group's products. Details of the mechanisms and current and future policies in respect of the subcontracting arrangements are set out in the paragraph head "Outsourcing" in the section headed "Business" in this document. In the event that the Processing Factory is unable to secure suitable subcontractors when required, or if the subcontractors overcharge their subcontracting fees, the production process and/or financial position of the Group may be adversely affected. Furthermore, although the Directors consider that there are numerous subcontractors working with the Processing Factory, the quality of subcontracting services from all subcontractors is stable, and the Group has sufficient and effective mechanisms in place to monitor the performance of the subcontractors to ensure timely delivery, the subcontractors may nevertheless be late in completing the production and/or producing products with unsatisfactory quality. Problems with any of the subcontractors' production facilities or production could result in deteriorating quality of the Group's products. In such event, the operations and profitability of the Group would be adversely affected. During the Track Record Period, the Group has not experienced any material adverse consequence from any unsatisfactory products produced by the subcontractors.

Reliability of electricity supply for the FC Factory and the Processing Factory

The operations of the FC Factory and the Processing Factory require continuous and steady supply of electricity which is currently provided by local utilities company and bureau, and each of the FC Factory and the Processing Factory has an internal standard power generator to supply electricity for the running of the FC Factory or the Processing Factory. Total cost incurred for the supply of electricity at the FC Factory and the Processing Factory amounted to approximately HK$1,673,000, HK$1,680,000, HK$1,831,000 and HK$468,000 for each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively. Reliance on electricity supply will further increase as the Group expands its overall production capacity. Any disruption to such supply may adversely affect the

Group's production flow, hinder its ability to meet customer orders and/or increase its production cost. Should there be any disruption to electricity supply, the Group's business and financial performance may be adversely affected.

Seasonal fluctuation in sales and negative net operating cash flow of the Group

Demand for the Group's knitted garments is subject to seasonal fluctuation. Generally, demand for knitwear products is relatively strong in Winter and the Group normally delivers the products of Winter collection to customers in the third quarter. During the three years ended 31 December 2010, the Group's sales were higher from July to September, which accounted for approximately 39.9%, 38.4% and 45.2% of the Group's annual turnover for each of the three years ended 31 December 2010 respectively. The Group's turnover during the first quarter were relatively lower than that in the other quarters, which accounted for approximately 11.6% to 16.9% of the Group's total turnover. For the four months ended 30 April 2011, the Group's turnover was approximately HK$49.2 million, representing approximately 13.8% of the Group's annual turnover for the year ended 31 December 2010 which was in line with the conventional trend of slack season of the Group.

In view of the seasonal fluctuation in sales of the Group's products mentioned above, the Group recorded net loss of approximately HK$3.2 million and approximately HK$4.2 million for the four months ended 30 April 2010 and 30 April 2011 respectively. Due to the same reason, the Group recorded net cash outflows in operating activities of approximately HK$45.1 million and approximately HK$16.3 million for the four months ended 30 April 2010 and 30 April 2011 respectively.

This seasonality fluctuation may affect the Group's production costs and the utilization rate of the production facilities in the FC Factory and the Processing Factory and thus leading to negative net operating cash flow of the Group during the slack season. The operating results of the Group for the peak seasons of each calendar year or between any interim periods may not be taken as an indication of its performance for the entire calendar year. Hence, prospective investors should be aware of this seasonal fluctuation when making any comparison of the Group's operating results.

Defects on the state-owned land use rights certificate and building ownership certificate of the leased factories

The FC Factory

As at the Latest Practicable Date, the FC Factory was located in Changping Town, Dongguan City, Guangdong Province, the PRC and comprised one 3-storey factory building, two blocks of 4-storey dormitory and other ancillary facilities with a gross floor area of approximately 12,000 sq.m.

According to the legal due diligence conducted by the PRC Legal Advisers, the type of rights held by the Baishigang Village Committee was allocated land use rights. Pursuant to《劃撥土地使用權管理暫行辦法》(Provisional Rules on Administration of Allocated Land Use Rights*), the lessor of the FC Factory, being Baishigang Village Committee, shall not transfer, lease or mortgage the land occupied by the FC Factory to any parties without (i) the approval of the relevant government authorities for the land use rights assignment; (ii) conducting land use rights assignment procedure; and (iii) the payment of land use right assignment fee. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Baishigang Village Committee has not and will not conduct the land use right assignment procedure for the leased land occupied by the FC Factory because they normally will not obtain the relevant certificates if they do not need these certificates to obtain loans from banks. As such, according to Article 46 of《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(Interim Regulations of the PRC Concerning the Assignment and Transfer of the Right to the Use of the State-owned Urban Areas*), the relevant government authorities are entitled to confiscate the illegal rental income and impose a fine on the lessor according to the severity of the breaches. In addition, Baishigang Village Committee has not obtained the building ownership certificate and thus it is illegal to lease the FC Factory to any parties.

In connection with the unauthorized leasing of the FC Factory by the lessor as detailed above, the PRC Legal Advisers advised that (i) Baishigang Village Committee, instead of Fung Ching, should bear all the legal consequences resulting therefrom; (ii) there is a risk that the FC Tenancy Agreements may be deemed as void; (iii) the leasing of the FC Factory may be suspended if any third party files an opposition thereto; and (iv) the Group may not claim from the lessors all related losses but is entitled to claim for reduction or exemption of rental if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property.

The Processing Factory

As at the Latest Practicable Date, the leased production facilities of the Processing Factory were located at 189 Fuli East Road, Xiangwei Village, Hangwei District, Dongguan City, Guangdong Province, the PRC and comprised a 4-storey factory building, a 4-storey dormitory, another 6-storey dormitory, a 3-storey staff quarters and other ancillary facilities with a total gross floor area of approximately 21,237 sq.m.

According to the due diligence exercise conducted by the PRC Legal Advisers and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the lessor of the production premises for the Processing Factory has not obtained the relevant state-owned land use rights certificates and the building ownership certificates in respect of the production premises for the Processing Factory and thus it is not allowed to lease such production premises. In view of the above, the PRC Legal Advisers advised that, (i) the lessor of the Processing Factory, instead of Nice Regent, should bear all the legal consequences resulting therefrom; (ii) there is a risk that the Processing Factory Tenancy Agreement 2000 may be deemed as void; (iii) the leasing of such production premises to Nice Regent may be suspended in the event that any third parties file an opposition to the legality of the leasing and (iv) Nice Regent may not claim from the lessors all related losses but is entitled to claim for reduction or exemption of rental due to the said lessor if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property.

In the event that Fung Ching and the Processing Factory are required to cease occupation of the properties due to the aforesaid defects, the operations and financial results of the Group may be adversely affected as the Group will have to relocate the existing production facilities to the spare factories, which may result in temporary suspension of production for several days.

Non-compliance with relevant regulations relating to social insurance

The Processing Factory

Pursuant to《工傷保險條例》(Regulations on Occupational Injury Insurance*),《企業職工生育保險試行辦法》(Interim Measures concerning the Maternity Insurance for Enterprise Employees*),《社會保險費徵繳暫行條例》(Interim Regulations on the Collection and Payment of Social Insurance Premiums*) and《社會保險登記管理暫行辦法》(Interim Measures concerning the Administration of the Registration of Social Insurance*), the Processing Factory is required to make insurance contributions for all of its employees for occupational injury insurance, maternity insurance, basic pension insurance, medical insurance and unemployment insurance (collectively referred as the "social insurance"). As advised by the management of the Processing Factory, as at the Latest Practicable Date, the Processing Factory has not made social insurance contributions for every employee as some of the employees of the Processing Factory were unwilling to participate in the contributions. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, the unpaid contributions thereof amounted to approximately HK$4.9 million, HK$4.9 million, HK$6.0 million and HK$1.9 million, respectively.

As advised by the PRC Legal Advisers, pursuant to the PRC Social Insurance Law, if the Processing Factory fails to make the full contribution on time, the relevant social insurance fee levy authorities are entitled to order the non-complying unit to make the social insurance contribution for its employees within a specified time limit and pay the daily surcharges of 0.05% calculated on the unpaid contribution from the due date on which the social insurance contribution should have been made. If the Processing Factory fails to make the contribution within the period set out in any payment demand that might be issued to the Processing Factory by the relevant social insurance fee levy authorities, the Processing Factory will be subject to fines equal to one to three times of the unpaid contribution. No provision has been provided by the Group for such potential penalty and no rectification measures by the Group are necessary for the non-compliance of the Processing Factory because (i) as at the Latest Practicable Date, the Processing Factory has not received any notification or directive from the relevant authority for the social insurance contributions, and there is no penalty imposed on the Processing Factory for failure to make punctual and full social insurance contributions for its employees; (ii) there is also no claim made by the employees of the Processing Factory in respect of the non-contribution towards the social insurance schemes; and (iii) as advised by the PRC Legal Advisers, the Processing Factory will be solely liable for all the liabilities arising from the social insurance contributions and Nice Regent or the Group will not be liable for the said liabilities.

Non-compliance with relevant regulations relating to housing provident fund

Fung Ching

Pursuant to《住房公積金管理條例》(the Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公職金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), Fung Ching is required to register with the applicable housing provident fund management centre and establish a housing provident fund account with an entrusted bank for each employee and make contributions for all its employees to the housing provident fund account as part of its employees' welfare and benefits. As at the Latest Practicable Date, Fung Ching has not made contributions to the housing provident fund for every employee as some of the employees of Fung Ching were unwilling to participate in the housing provident fund scheme. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, the unpaid contributions of the housing provident fund amounted to approximately HK$487,000, HK$382,000, HK$319,000 and HK$67,000 respectively.

The PRC Legal Advisers advise that according to《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公職金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the housing provident fund management centre possesses the discretion right to notify the non-complying unit to establish a housing provident fund account for each employee and/or to make contributions towards the housing provident fund within a specific time limit. Should the unit fail to establish housing provident fund account for its employees and/or to contribute towards housing provident fund within that specified time limit, the management center of housing provident fund may impose fines ranging from RMB10,000 to RMB50,000 and may apply to the People's Court to enforce the payment of any housing provident fund under the relevant PRC laws and regulations. No provision for the penalty has been provided by the Group because (i) as at the Latest Practicable Date, Fung Ching has not received any notification or directive from the relevant authority for housing provident fund contribution and, there is no penalty imposed on Fung Ching for failure to make punctual and full housing provident fund contributions; (ii) there is also no claim made by the employees of Fung Ching in respect of the non-contribution towards the housing provident fund; and (iii) the amount of the possible penalty is insignificant. Notwithstanding the above, the Company will comply with the necessary filing requirements for all of Fung Ching's employees and settle all the outstanding housing provident fund contribution to the relevant authorities within three to six months from the [●].

Should any enforcement action be taken against Fung Ching by the relevant PRC authorities and/or any claims be made by employees against the Group, the Group's business, results of operations and financial condition may be adversely affected.

Processing Factory

Pursuant to《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公職金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the Processing Factory is required to register with the applicable housing provident fund management centre, establish a housing provident fund account with an entrusted bank for each employee and make contributions for all of its employees to the housing provident fund account as part of its employees' welfare and benefits. As advised by the management of the Processing Factory, as at the Latest Practicable Date, the Processing Factory has not made contributions to the housing provident fund for every employee as some of the employees of the Processing Factory were unwilling to participate in the housing provident fund scheme. The unpaid contributions thereof amounted to approximately HK$1.1 million, HK$1.1 million, HK$1.3 million and HK$0.4 million for each of the three years ended 31 December 2010 and the four months ended 30 April 2011.

The PRC Legal Advisers advise that, according to《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金管繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the housing provident fund management centre possess the discretion right to notify the non-complying unit to establish a housing provident fund account for each employee and/or to make contributions towards the housing provident fund within a specific time limit. Should the unit fail to establish housing provident fund account for its employees and/or to contribute towards housing provident fund within that specified time limit, the management center of housing provident fund may impose fines ranging from RMB10,000 to RMB50,000 and may apply to the People's Court to enforce the payment of any housing provident fund under the relevant PRC laws and regulations. No provision has been provided by the Group since (i) as at the Latest Practicable Date, the Processing Factory has not received any notification or directive from the relevant authority for housing provident fund contribution and, there is no penalty imposed on the Processing Factory for failure to make punctual and full housing provident fund contributions; (ii) there is also no claim made by the employees of the Processing Factory in respect of the non-contribution towards the housing provident fund; (iii) as advised by the PRC Legal Advisers, the Processing Factory will be solely liable for all the unpaid contribution and all possible penalty; and (iv) the amount of penalty is insignificant.

Reliance on certain key personnel and management

The Directors believe that the Group's success, to a large extent, is attributable to, amongst other things, the contribution of Madam Wong and Mr. Wong. Details of their expertise and experience are set out in the section headed "Directors and Senior Management" in this document. As at the Latest Practicable Date, each of the three executive Directors has entered into a service contract, and each of the independent non-executive Directors has entered into a letter of appointment, with the Company for an initial term of three years and will continue thereafter until terminated by not less than 3 months' prior written notice to the other party.

The Group's key personnel and management talents, efforts and expertise in the knitting industry are crucial to the operations and financial performance of the Group. The unanticipated departure of any key personnel and management of the Group would have a material adverse effect on the Group's business. There is no assurance that the Group will not experience such retention issue in the future. The Group may not be able to retain the leaving key personnel or replace them in a timely manner without incurring higher compensation and other benefits. If the Group cannot retain or have a suitable candidate for replacement in a timely manner, the Group's performance may be adversely affected and the business objective of the Group may not be achieved.

Exposure of product liability or personal injury claims

During the Track Record Period, all of the Group's knitwear products were sold to overseas market including the apparel markets in the USA and Europe. The knitwear products manufactured by the Group is subject to compliance with the USA and EU regulatory standards including but not limited to product safety controls. In addition, certain compliance agreements entered into between the Group and its customers also contain provisions requiring the Group and its subcontractors to comply with all applicable product safety laws, rules and regulations and with all product safety standards and to hold such customers harmless against claims for damages of third parties arising from the nature of the knitwear products manufactured by the Group.

Although the Group has established measures to ensure sufficient control over the quality of its products as set out in the paragraph headed "Quality Assurance" in the section headed "Business" of this document, it may still be exposed to product liability claims and may, as a result, have to utilise significant financial and managerial resources to defend against such claims and if any such claim is successful, for damages arising therefrom.

The Directors believe that the risks of product liability claims exist as legal concept of product liability is relatively mature in the regions where the Group's apparel products will be sold. The Group may not have effective or sufficient control over the quality of its apparel products and cannot give any assurance that the business, financial condition, results of operations and prospects will not be materially and adversely affected by a successful product liability claim against the Group. The Group currently does not maintain any product liability insurance. In addition, the Group does not maintain any third-party liability insurance against claims for product, personal injury or environmental liabilities. Should there be any product liability or personal injury claim taken out against the Group, the Group may incur significant costs and expenses to defend against such claims and/or making payments for damages. The Group may also be fined or sanctioned, which could adversely affect its reputation, business, prospects, financial condition and results of its operations.

Potential fluctuation in the prices of raw materials

Raw material costs are mainly comprised of cotton yarns and wool yarns mixed with a small extent of other materials. The purchase of yarns accounted for a substantial amount of the Group's total raw materials costs and cost of sales, representing approximately 43.8%, 40.8%, 40.2% and 22.4% of the Group's total cost of sales for each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively.

For the year ended 31 December 2008, all the top five suppliers of the Group were yarn suppliers. For each of the two years ended 31 December 2010, four of the top five suppliers of the Group were yarn suppliers. As it is an industry practice that the supply contracts are entered into separately for each season, the Group has not signed any long-term supply contracts with any of its suppliers. Accordingly, the fluctuation in prices of yarn has a material effect on the cost of sales of the Group.

Both cotton and wool, being the major components of the yarns, have volatile prices. The prices of cotton and wool are largely determined by the weather, industry demand and supply. The Group did not undertake any hedging activities or any other strategy to minimize the exposure to the possible price fluctuation of the raw materials during the three years ended 31 December 2010 and the four months ended 30 April 2011. The Group cannot give assurance that future price increases in raw materials or changes in the supply of raw materials will not materially and adversely affect the Group's operation results and performance.

Increase in the cost of labour and the availability of labour

The Group's production of knitted garments is labour intensive and therefore relies, to a significant extent, on skilled workers especially in the process of knitting and linking. The Group's performance relies on the low cost and steady supply of labour in the PRC. The FC Factory's labour cost as well as the Processing Factory's labour cost included in the Processing Fees accounted for approximately 10.5%, 9.2%, 8.1% and 14.4% of the total cost of sales for each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively. The Group has acquired additional 129 computerised knitting machines and there were in total 149 sets of computerised knitting machines in place in the third quarter of year 2011 and an additional 100 computerised knitting machines is expected to be in place in the third quarter of 2012.

Labour cost in China are basically affected by the demand for and supply of labour, economic factors in China including the inflation rate, standard of living in China. The FC Factory was under-utlilised during the Track Record Period due to, among other things, labour shortage prevailing in the Guangdong Province arising from substantive outflow of workers back to their hometown following the outburst of the financial crisis in 2008. The labour cost may further increase in future due to shortage of skilled labour and growing industry demands for skilled workers. The failure to identify and recruit replacement staff immediately following unanticipated loss of services of the skilled workers could have an adverse effect on the Group's operation. In view of the potential increase in labour cost, if the Group is not able to apply effective strategy to control the labour cost or increase the price of its products correspondingly, the Group's competitiveness and profitability could be adversely affected.

Dividend policy

The Group declared a special dividend of approximately HK$53 million and an interim dividend of approximately HK$20 million for the year ended 31 December 2010 and a final dividend of approximately HK$1.7 million for the year ended 31 December 2009. The Group did not declare any dividend for the year ended 31 December 2008. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Any future dividend declaration and distribution by the Group will be at the discretion of Directors and will depend upon the Group's financial results, the Company's shareholders' interests, general business conditions, strategies and future expansion needs, the Company's capital requirements, the payment by its subsidiaries of cash dividends to the Company, possible effects on liquidity and financial position of the Company and such other factors as the Board may consider relevant. As a result, there is no reference to the basis for forecasting the amount of dividend payable in future in this document. The past dividend distribution record should not be used as a reference of the amount of dividend payable in the future.

RISKS RELATING TO THE APPAREL MANUFACTURING INDUSTRY

Competitive market

The Group faces competition from existing and new players in the knitwear manufacturing industry in the PRC, Vietnam, Bangladesh and other countries. To compete effectively and maintain its sales level, the Group may be forced to, among other actions, reduce prices, provide more sales incentives to customers and increase capital expenditures, which may in turn negatively affect the Group's profit margins.

The Group's main manufacturing process was based in Guangdong Province, the PRC. The industry is highly fragmented, with substantive number of apparel manufacturers of various sizes operating in the PRC. The Directors believe that the success of the Group depends on its ability to compete effectively against these competitors in terms of product quality, customer service, pricing, timely delivery, scale and capacity, efficiency and technical advancement. There is no assurance that the

Group will continue to compete successfully or respond rapidly to a fast changing business environment in the future, and if the Group fails to do so, its business, financial results of operations and prospects would be adversely affected.

Potential import regulations imposed by USA and Europe

The Group's customers are mainly international apparel groups based in USA and the European countries with their products sold all over the world. Following the removal of textile quotas among the WTO members from 2005 and the expiration of the agreement on the re-imposition of quotas from 1 January 2006 through 31 December 2008, covering a total of 21 groups involving 34 categories of textile and clothing products, textile and clothing shipments to USA made on or after 1 January 2009 are no longer subject to any quotas. Similarly, Europe's regime of double checking surveillance system expired on 31 December 2008, accordingly textile and clothing products originating in the PRC no longer require any import licence or surveillance document before entering Europe starting from 1 January 2009. There is no assurance that import quotas, higher tariffs or other trade barriers will not be imposed by USA, Europe or other countries and the performance and operating results of the Group could be negatively impacted.

Failure to obtain or renew licences, certificates and permits required in the production of knitted garments

Currently, Fung Ching and the Processing Factory possess all necessary licences, certificates and permits for the production of their respective products in the PRC. However, the Group can give no assurance that it will be able to renew such licences, certificates or permits upon their expiration. In addition, eligibility criteria for these licences, certificates, and permits may change from time to time and additional licences, certificates and permits may be required and higher compliance standards may have to be observed. In the event of the introduction of any new laws and regulations or changes in the interpretation of any existing laws and regulations that increase compliance costs for the Group or prohibit or make it more expensive for the Group to continue with the operation of any part of its business, the Group may have to restrict the operations and its business and performance could be adversely affected.

Natural disasters, acts of war, political unrest and outbreak of a contagious or epidemic disease

The production facilities of the FC Factory and the Processing Factory are located in the PRC and the remaining operations of the Group are located in Hong Kong. Natural disasters, acts of war, political unrest and outbreak of a contagious or epidemic disease, which are beyond the Group's control, may cause material damage to, or the loss of, the Group's operational facilities, including the FC Factory and the Processing Factory. The damage or the loss may not be adequately covered by the [●] of the Group's and the Processing Factory's insurance coverage. Furthermore, any one or more of these events could significantly disrupt the Group's operations and the operations of the FC Factory and/or Processing Factory by, among other things, impeding the ability of personnel to report to work. The time required to rectify such problems could be lengthy, and could result in significant increases in costs or reduction in sales.

Moreover, several countries in Asia or Asia Pacific including Japan, Burma, Australia and New Zealand have reported Tsunami or earthquake (as the case may be) recently. Past occurrence of Tsunamis or earthquakes have caused different degrees of damage to the national and global economies. In addition, recent nuclear crisis happened in Fukushima, Japan will adversely affect the Japan's economy. The global economy may also be adversely affected if the situation exacerbates. The Group's financial condition and results of operations may also be adversely affected in this regard. The occurrence of any natural disasters may also adversely affect the Group's performance.

RISKS RELATING TO THE PRC

Economic, political and social considerations

Substantial part of the Group's assets is located in the PRC and substantial part of the Group's business operations are conducted in the PRC. Accordingly, the Group's results of operations, financial condition and prospects are subject to a significant degree to the economic, political and legal developments in the PRC. The PRC economy differs from those in more developed countries in many respects, including political structure, degree of government involvement, degree of development, level and control of capital reinvestment, control of foreign exchange, allocation of resources, rate of inflation and trade balance position.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For the past three decades, the PRC Government has implemented economic reform and measures emphasizing on the utilisation of market forces in the development of the PRC economy. The Group cannot predict whether these changes in the PRC economic, political and social conditions, laws, regulations and policies will have any adverse effect on its current or future business, financial condition or results of operations.

Moreover, the Group cannot assure that the policy of economic reform and the direction of reform towards market-oriented in the PRC will continue in the future. A variety of policies and other measures that could be taken by the PRC Government to regulate the economy could have a negative impact on the Group's business, including the introduction of measures to control inflation or reduce growth, changes in the interest rate or method of taxation. The Group's business, financial condition and results of operations may be adversely affected by the PRC Government's economic, political and social policies and regulations.

Restriction on foreign exchange

The PRC Government regulates the conversion between Renminbi and foreign currencies. Over the years, the government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service-related foreign exchange transactions and payment of dividends. However, strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE or its branches, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions. Fung Ching is a WFOE established in the PRC by the Group. It is expected that Fung Ching will purchase equipment from overseas equipment suppliers for which the Group is required to pay in foreign currencies. Besides, it is expected that Fung Ching may pay dividends in foreign currencies by complying with certain procedural requirements. Further, the Group has in the past paid and expects to continue to pay processing fees to the Processing Factory under the Processing Agreements. Any tightening of such restriction may adversely affect the performance of the Group's obligations under the Processing Agreements. Shortages in foreign currency may restrict the ability of Fung Ching to remit sufficient foreign currency to pay dividends or other payments to the Group, or otherwise satisfy its foreign currency-denominated obligations.

Foreign exchange rate fluctuations

The exchange rates between Renminbi and Hong Kong dollars, the U.S. dollars and the Euro and other foreign currencies are subjected to changes in the PRC Government's policies and international political and economic conditions. On 21 July 2005, the PRC Government reformed the exchange rate regime by moving into a managed floating exchange regime based on market demand and supply with reference to a basket of currencies, determined by the PBOC. This change in policy has resulted in the value of the Renminbi appreciating against the U.S. dollars significantly. For the period from January 2008 to September 2011, the Renminbi appreciated against the U.S. dollars from RMB7.1853 to US$1.00 to RMB6.3549 to US$1.00.

There remains significant pressure from foreign countries on the PRC Government to adopt a more flexible currency policy, which could result in a more significant appreciation of the Renminbi against the U.S. dollars and other foreign currency. The Renminbi may be revalued further against the U.S. dollars or other foreign currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi.

The Group derives a substantial part of their revenue from the United States in U.S. dollars and European countries in Euro. If the Renminbi fluctuates against the U.S. dollars and/or the Euro, these fluctuations may result in exchange losses or gains or increases or reductions in the Group's revenue and receivables after translation into Renminbi. Besides, the appreciation of Renminbi may lead to increase of the Group's manufacturing costs, which may in turn affect the Group's competitiveness against overseas competitors. To the extent that the Company needs to convert [●] and future financing into Renminbi for its operations, appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the purchasing power of the Renminbi amount the Company would receive from the conversion. On the other hand, any depreciation of Renminbi would materially and adversely affect the Group's financial position and the value of, and any dividends payable on, the Shares in HK dollars, as well as the Group's ability to pay for foreign currency obligations. As at the Latest Practicable Date, the Group had a foreign currency hedging policy as described in the paragraph headed "Subsequent Events" under the section headed "Financial Information". In addition, the Group's currency exchange losses may be amplified by the PRC exchange control regulations that impose limits on the amount of Renminbi to be converted into foreign currency.

Changes and uncertainties in the PRC legal system

Substantial part of the Group's assets is located in the PRC and substantial part of the Group's business operations is conducted in the PRC. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference and are non-binding. Since 1979, the PRC Government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. Consequently, developments and changes in the PRC laws and regulations, including their interpretation and enforcement, may lead to additional restrictions and uncertainty for the Group's business and uncertainty with respect to the outcome of any legal action investors may take against the Group in the PRC.

The PRC Labour Contract Law

The LCL became effective on 1 January 2008. Compliance with the requirements under the LCL, in particular, the requirements of non-fixed term employment contracts and severance payment, imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce.

Pursuant to the provisions of Article 14 of the LCL, Fung Ching and the Processing Factory are required to enter into non-fixed term employment contracts with employees who have worked for them for more than 10 years or, unless otherwise provided in the LCL, for whom a fixed term employment contract has been concluded for two consecutive terms since 1 January 2008. The Group and the Processing Factory may not be able to efficiently terminate non-fixed term employment contracts under the LCL without cause.

Pursuant to the provisions of LCL, Fung Ching and the Processing Factory are also required to make severance payments to fixed term contract employees when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer, except in circumstances where the employee's monthly wage is three times greater than the average monthly wage in the relevant district or locality, in which case the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by a maximum of twelve years.

A minimum wage requirement has also been incorporated into the LCL. Liability for damages or fines may be imposed for any material breach of the LCL. If the Group decides to significantly change the workforce or perform major adjustments in human resources management policies, the LCL could adversely affect the Group's ability to enact such changes or adjustments in a timely and cost effective manner, thus the operating results of the Group could be adversely affected.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Ms. Wong Kan Kan, Kandy (王勤勤)	Flat B, 39/F, Block 1 Clovelly Court 12 May Road Hong Kong	Chinese
Mr. Wong Tat Wai, Derek (王達偉)	Flat B, 2/F 61 Fa Po Street Yau Yat Chuen Kowloon	Chinese
Mr. Yam Tak Cheung (任德章)	Flat B, 39/F, Block 1 Clovelly Court 12 May Road Hong Kong	Chinese
Independent Non-executive Directors		
Mr. Wang Wei Hung, Andrew (王惟鴻)	Flat 903, Block C Imperial Court 62G Conduit Road Hong Kong	Chinese
Mr. Cheng Dickson (鄭迪舜)	Flat 423, Chi Tak House Lung Tak Court Stanley Hong Kong	Chinese
Mr. Sin Ka Man (冼家敏)	Flat A, 9/F Kingston Heights Belair Gardens, Shatin New Territories Hong Kong	Chinese

CORPORATE INFORMATION

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Headquarter and principal place of business in Hong Kong	Unit A, 32nd Floor Legend Tower 7 Shing Yip Street Kwun Tong Kowloon
Company secretary	Mr. Lee Sze Wai, *CPA*
Authorised representatives	Ms. Wong Kan Kan, Kandy Flat B, 39/F Block 1 Clovelly Court 12 May Road Hong Kong Mr. Lee Sze Wai Flat B1, Floor 19 Block B, Greenfield Terrace 26 Ho Man Tin Hill Road Kowloon
Bermuda resident representative	Codan Services Limited Clarendon House 2 Church Street Hamilton HM11 Bermuda
Members of the audit committee	Mr. Sin Ka Man *(Chairman)* Mr. Wang Wei Hung, Andrew Mr. Cheng Dickson
Members of the remuneration committee	Mr. Cheng Dickson *(Chairman)* Ms. Wong Kan Kan, Kandy Mr. Wang Wei Hung, Andrew Mr. Sin Ka Man

CORPORATE INFORMATION

Members of the nomination committee	Mr. Wang Wei Hung, Andrew *(Chairman)* Mr. Cheng Dickson Mr. Sin Ka Man
Principal bankers	HSBC HSBC Main Building 1 Queen's Road Central Hong Kong DBS 11/F, The Centre 99 Queen's Road Central Hong Kong
Company's website	www.fornton.com (information contained in this website does not form part of this document)

The information provided in this section is derived directly or indirectly from various published sources and/or official government sources (including various publications issued by PRC Government entities) which were not commissioned by the Group nor [●] as well as extracted from publications of Datamonitor purchased by the Company for the purpose of this document. The Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Neither the Company, nor [●], nor [●] or their affiliates or advisers have independently verified any information derived from the stated published source official government sources. The information in this section may not be consistent with or may not have been compiled with the same degree of accuracy or completeness as statistics or other information compiled elsewhere. You should not place reliance on statement in this section.

INTRODUCTION

The Group operates primarily in the knitwear manufacturing industry and the Group's customers are mainly international apparel groups based in USA and the European countries with their products sold all over the world. One of the future plans of the Group as set out in the section headed "Future plans" in this document is to develop and explore the market in the PRC. This section illustrates (i) overview of global apparel and accessories (knit or crochet) export market; (ii) overview of PRC knitwear manufacturing industry; (iii) clothing and apparel industry in the United States; (iv) clothing and apparel industry in the European countries; and (v) clothing and apparel industry in the PRC.

GLOBAL APPAREL AND ACCESSORIES (KNIT OR CROCHET) EXPORT MARKET

The PRC has maintained its leading position in the apparel exports market for the year 2010. Based on the statistic published by the International Trade Centre, the total world exported value of apparel and accessories (knit or crochet) were approximately US$173,256 million for the year 2010. Countries that supplied the largest volume of apparel, accessories (knit or crochet) were the PRC, accounted for 38.5% of the total worldwide exports value. The other major export countries were Bangladesh, Germany, Turkey, Italy, India, Vietnam, France, Belgium and Netherlands. The chart below lists out the top 10 exporters that had the highest value of exports of articles of apparel and accessories (knit or crochet) for the year 2010.

Top 10 exporters for the articles of apparel, accessories (knit or crochet) in year 2010

	Exported Value in 2010 *(in USD thousands)*	*Percentage*
World	173,256,457	
China	66,719,182	38.5%
Bangladesh	8,897,845	5.1%
Germany	7,846,528	4.5%
Turkey	7,741,746	4.5%
Italy	7,343,160	4.2%
India	5,182,316	3.0%
Vietnam	5,081,970	2.9%
France	3,920,983	2.3%
Belgium	3,874,234	2.2%
Netherlands	3,813,399	2.2%

Source: The International Trade Centre

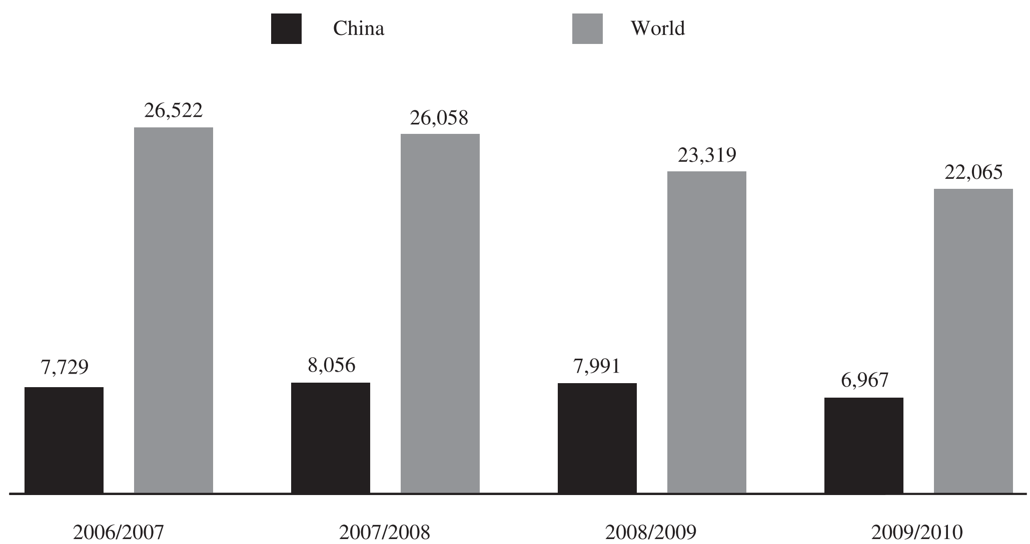
PRC KNITWEAR MANUFACTURING INDUSTRY

In recent years, the knitwear manufacturers in the PRC have been facing challenges from other developing countries in Asia with lower labour cost and less stringent regulatory environment such as Bangladesh, India and Vietnam. Besides the keen competition from the manufacturers of these developing countries, the PRC manufacturers are also facing upward manufacturing costs within the countries. The trend of the cotton cost, wool cost and labour cost in PRC are presented in the following section.

Cotton Production

One of the major primary raw materials for knitwear products is cotton. The knitwear manufacturers in the PRC enjoy a competitive advantage in terms of the proximity to the cotton source as the PRC was the world's largest producer of cotton and maintained around 30% worldwide production volume of cotton for the 4 years period from 2006 to 2010. The following chart shows the worldwide and PRC production volume of cotton for the period from 2006 to 2010.

Cotton Production (in 1,000 metric ton)

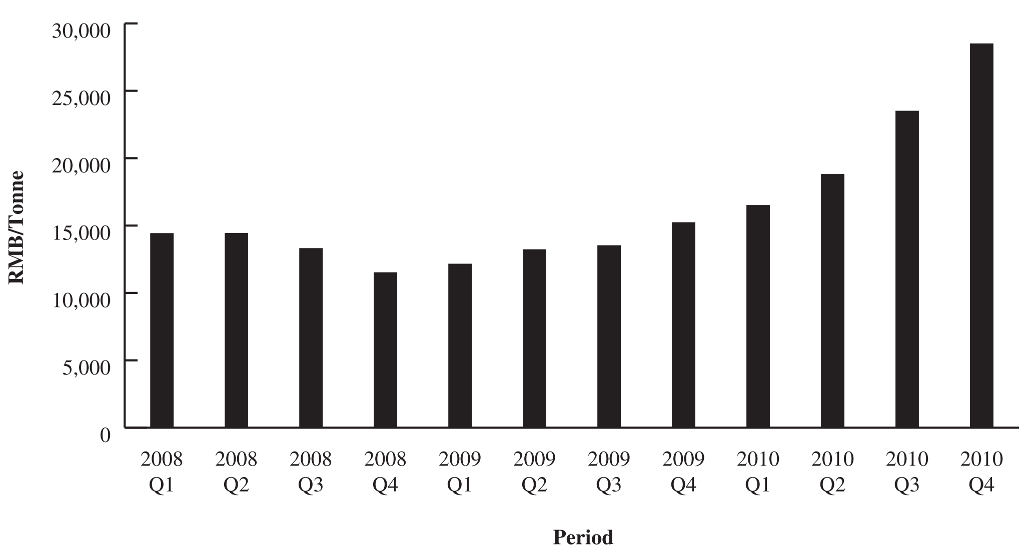


Sources: The United States Department of Agriculture, published in March 2011

Cotton Price

In 2010, the economy of the PRC recovered and moved forward, the apparel and textile industry got rid of the shadow from the financial crisis. The growth of demands in both the domestic and foreign markets caused the cotton prices to increase and reach record highs in the fourth quarter of 2010, coupled with the appreciation of the RMB, reduction in the trade friction between the PRC and the USA. All of a sudden, the unexpected change caused the apparel manufacturing industry to face unprecedented cost pressures as well as the risk of lack of raw materials. The chart below shows the price of cotton for the year 2008 to 2010.

China cotton price

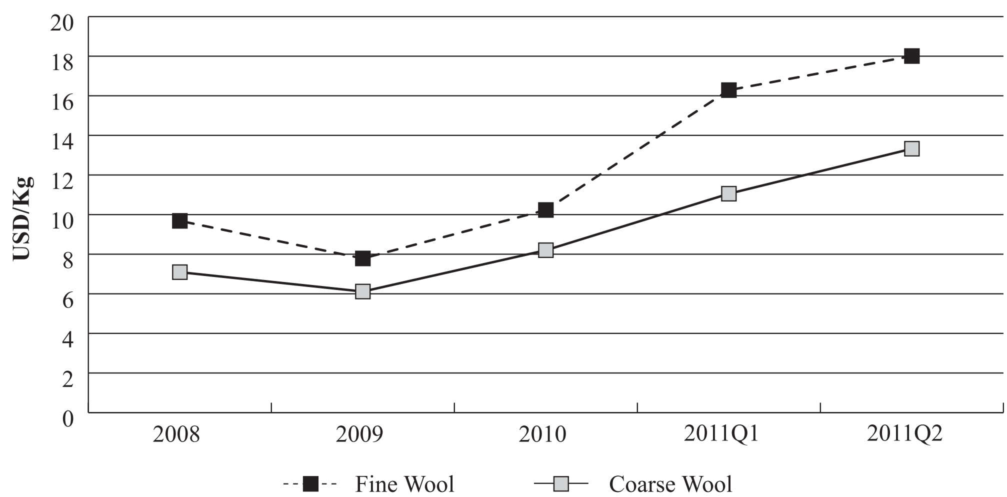


Source: China Cotton Index 229 published by China Cotton Association

Wool Price

The prices of both fine wool and coarse wool are in an upward trend since year 2009. The price of fine wool increased from approximately 7.79 USD/kg during the year 2009 to approximately 18.00 USD/kg during the 2nd quarter of 2011. The price of fine wool has been decreased from approximately 17.87 USD/kg in July 2011 to approximately 16.55 USD/kg in August 2011. The price of coarse wool showed a similar price trend as the fine wool. The price of coarse wool increased from approximately 6.11 USD/kg during the year 2009 to approximately 13.33 USD/kg during the 2nd quarter of 2011. The price of coarse wool has been decreased from approximately 13.62 USD/kg in July 2011 to approximately 12.49 USD/kg in August 2011. The chart below shows the price of fine wool and coarse wool for the year 2008 to the 2nd quarter of 2011.

Wool price from Australian Wool Exchange

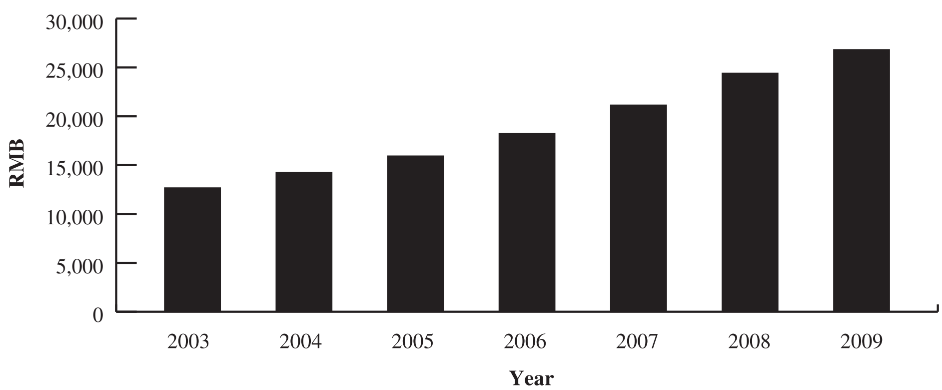


Source: International Monetary Fund

Labour Cost

According to the statistics published by National Bureau of Statistics of China, the average wage of employed persons in manufacturing sector located in urban areas of the PRC has been increased from RMB12,671 in 2003 to RMB26,810 in 2009, representing a CAGR of approximately 13.3%. The series of high-profile strikes happening in some of the PRC factories in 2010 has put a spotlight on growing unrest among the PRC's massive migrant worker populations wanting a greater share of the profit of the employers. The following chart sets out the average wage of employed persons in manufacturing sector located in urban areas of the PRC for the period from 2003 to 2009.

Average Wage of Employed Persons in Urban Units of PRC (Manufacturing Sector)



Source: China Statistical Yearbook 2010 published by National Bureau of Statistics of China

Entrance barriers in the knitwear manufacturing industry

The increase in the manufacturing cost as well as the stringent environmental and other regulations in the knitwear manufacturing industry creates a higher entry barrier for the smaller knitwear manufacturers. The increasing cost pressure has created a keen competition for the local knitwear manufacturing industry. Also, knitting manufacturers should obtain the 排放污染物許可證 (Pollutants Discharge Permit*) for the discharge of water pollutants and gas pollutants before commencement of the manufacturing process.

Development trends of the knitwear manufacturing industry

The development trends of the knitwear manufacturing industry are increasing the automation involvement throughout the manufacturing process and targeting sales to both onshore and offshore markets especially for the premium brands.

Confronted with the rising wages and potential shortage of skillful labour in the PRC, the manufacturers would invest more on machinery to further automate the manufacturing process. The technological advances in computerised management systems and knitting techniques have resulted in shorter lead times, higher quality, lower manufacturing costs per unit, improved efficiency, and increased scales of operations. As a result, the more capitalised manufacturers in the low-cost countries increasingly adopt advanced machinery to create their competitive advantages in manufacturing capabilities and efficiencies.

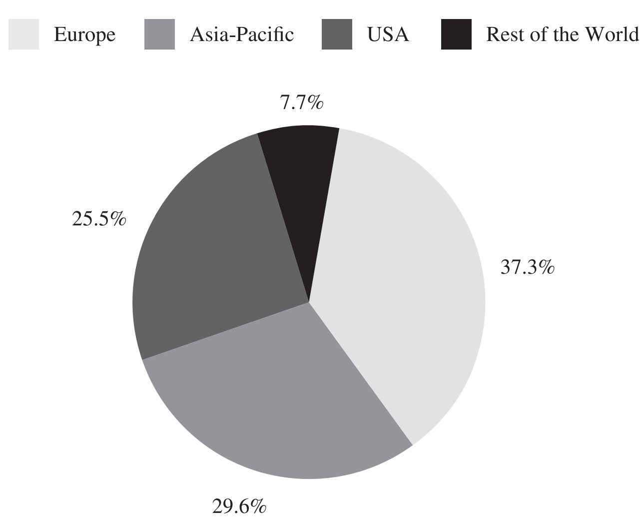
Consumer purchasing preferences have shifted to premium brands as spending power of citizens in the PRC is growing rapidly along with increasing disposable incomes. The international premium brands launched online stores and opened more branches to expand their market presences in different regions of the PRC. In view of the above, the Directors believe that the knitwear manufacturers are seeking opportunities to produce knitwear products with international brand names which are sold within the PRC region.

The Company's revenue for the year ended 31 December 2009 represents approximately 0.03% of the gross industrial output value for the manufacturing of textile wearing apparel, footwear and caps sector of the PRC. The number of industrial enterprises with annual revenue from principal business over RMB5 million in the PRC manufacturing of textile, wearing apparel, footwear and caps sector was 18,265. There is no particular dominating market player in the industry identified by the Directors.

Global market apparel retail value

The global apparel retail market is dominated by the three areas namely Europe, Asia-Pacific and USA markets. The three markets in aggregate accounts for over 90% of the global apparel retail industry value. Europe accounts for 37.3% of the global industry, while USA and Asia-Pacific accounts for 29.6% and 25.5% of the global industry value respectively. The chart below shows the market segmentation of the global apparel retail industry.

Global apparel retail industry segmentation % share by value, 2009(e)



Source: Datamonitor, publication date in December 2010

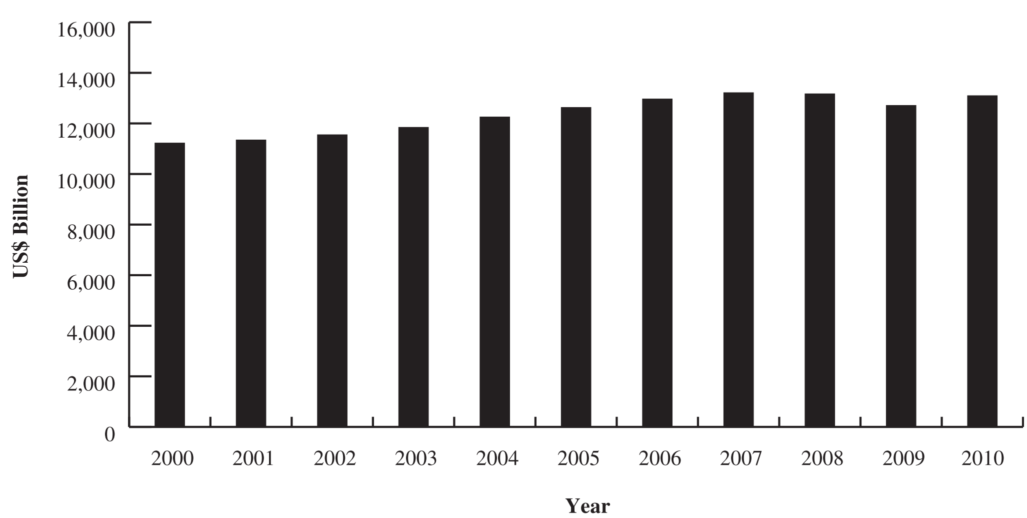
Note: The estimated figure in 2009 was the latest data which can be found in the report compiled by Datamonitor.

USA APPAREL INDUSTRY

Overview of USA Economy

According to the statistics published by the Bureau of Economic Analysis, U.S. Department of Commerce, USA real GDP steadily increased from approximately US$11,216 billion in 2000 to approximately US$13,088 billion in 2010, with a CAGR of approximately 1.56%. The suddenly decrease in the annual real GDP of USA in 2008 and 2009 was mainly due to the global financial crisis broke out in 2008 and 2009. The collapse of the international financial institutions imploded the banking system and lead to the global economic crisis. The severe and significant damage to USA economy can be shown from the significant drop in 2009 GDP. USA economy has been recovered in year 2010 with real GDP increased by 2.9% comparing with year 2009. The following chart sets forth the historical annual real GDP of USA between 2000 and 2010.

USA real GDP

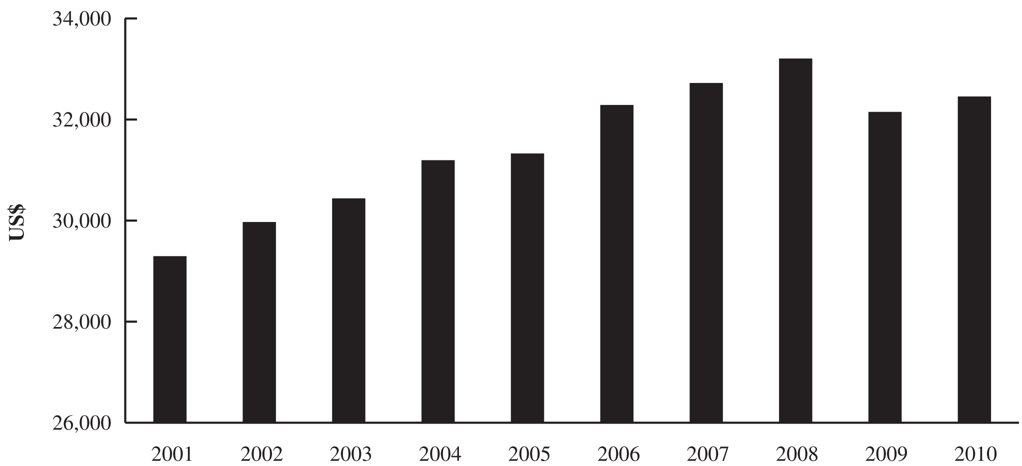


Sources: Bureau of Economic Analysis, U.S. Department of Commerce, published in September 2011

Per capita disposable personal income of USA

According to the statistics published by the Bureau of Economic Analysis, U.S. Department of Commerce, the real adjusted per capita disposable personal income has increased from US$29,286 in 2001 to US$32,446 in 2010, representing a CAGR of 1.15% for the period from 2001 to 2010. Disposal personal income is defined as personal income less personal current taxes, and the following chart shows the real adjusted per capita disposal personal income figures for the period from 2001 to 2010.

USA real adjusted per capita disposable personal income

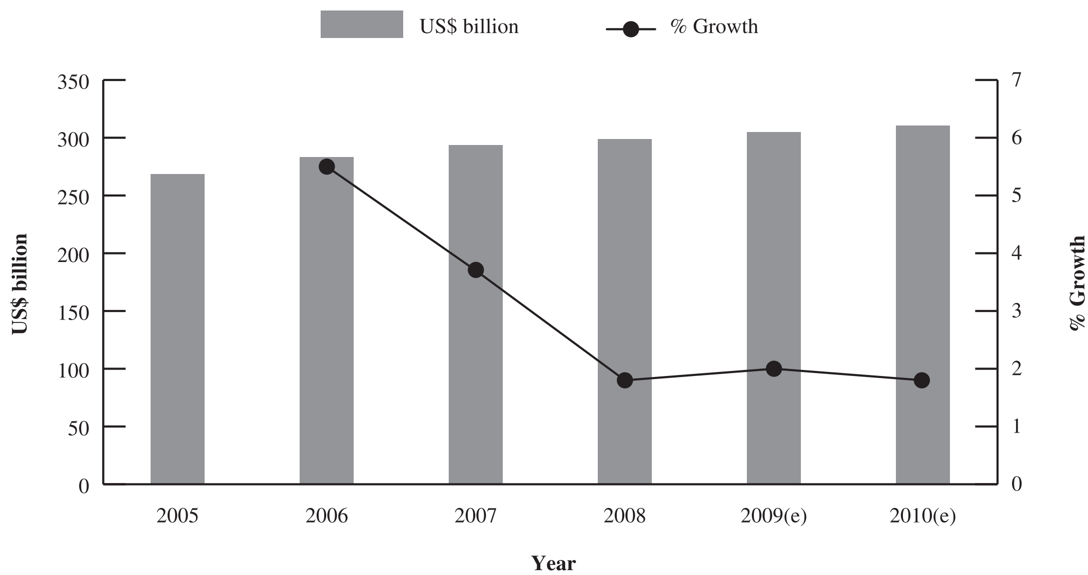


Sources: Bureau of Economic Analysis, U.S. Department of Commerce

United States apparel retail industry value

The apparel retail industry consists of all menswear, womenswear and kidswear. The apparel retail industry in the USA has grown in value in recent years and although further growth is forecast, the growth rate is expected to decelerate. USA apparel retail industry had forecast total revenue of US$310.5 billion in 2010, representing a CAGR of 3.0% for the period spanning 2005–2010(e). In comparison, the European and PRC industries grew with CAGRs of 1.7% and 7.4% respectively, over the same period, to reach respective forecast values of US$389.1 billion and US$107.9 billion in 2010. The following table set forth the United States apparel retail industry value for the year 2005 to 2010(e).

USA apparel retail industry value, 2005–10(e)

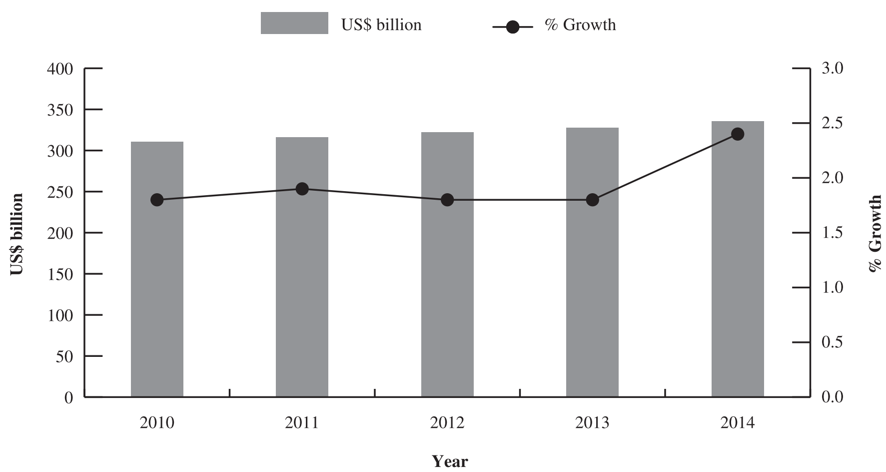


Source: Datamonitor, publication date in December 2010

Note: The estimated figures in 2009 and 2010 were the latest data which can be found in the report compiled by Datamonitor.

It is forecasted that the United States apparel retail industry will have a constant growth of 1.8% to 2.4% in the 4 years from 2010. The CAGR of the industry in the period 2010 to 2014 is predicted to be 2.0%. In 2014, the United States apparel retail industry is forecasted to have a value of US$335.5 billion. The following table shows the United States apparel retail industry value forecast.

USA apparel retail industry value forecast, 2010–2014



Source: Datamonitor, publication date in December 2010

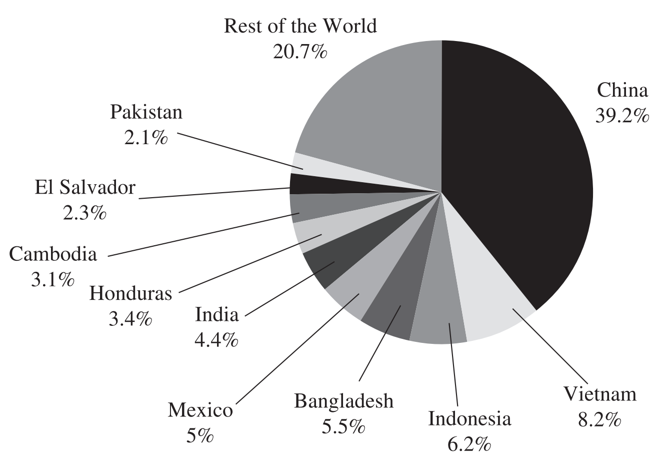
Note: The estimated figures from 2010 to 2014 were the latest data which can be found in the report compiled by Datamonitor.

Sales of womenswear proved to be the most lucrative for the USA apparel retail industry in 2009, with total revenues of US$161,698 million, equivalent to 53% of the market's overall value. In comparison, sales of menswear generated revenues of US$95,712.2 million in 2009, equating to 31.4% of the industry's aggregate revenues. The performance of the industry is forecast to decelerate, with an anticipated CAGR of 1.9% for the five year period 2009–2014, which is expected to drive the industry to a value of US$335,477.1 million by the end of 2014. Comparatively, the European and Asia-Pacific industries will grow with CAGRs of 1.7% and 3.2% respectively, over the same period, to reach respective values of US$417,494.1 million and US$307,204.8 million in 2014. USA apparel industry is of great importance to the economy in terms of trade, employment, investment and revenue for the country. This particular industry has short product life cycles, vast product differentiation and is characterised by great pace of demand change coupled with rather long and inflexible supply processes. Clothing is essential to consumers who are individuals. Where brand loyalty exists, it is more likely to be to the designer than the retailer, although this is usually towards the top end of the industry. There is a growing demand for discount apparel retail stores providing low cost prolific-output fashion. Fashion, by its very nature, is unpredictable. The products are determined by designers, sub-cultures and creative industries and are subject to sharp and unpredictable changes.

USA apparel import

According to the figures published by the International Trade Administration, U.S. Department of Commerce Office, USA total apparel import values in year 2010 was US$71,398 million. The 10 countries that contribute most to USA total apparel import value were, in sequence, China, Vietnam, Indonesia, Bangladesh, Mexico, India, Honduras, Cambodia, El Salvador and Pakistan for the year 2010. USA total apparel import values among the top 10 countries were approximately US$27,975 million from China, US$5,877 million from Vietnam, US$4,424 million from Indonesia, US$3,930 million from Bangladesh, US$3,541 million from Mexico, US$3,112 million from India, US$2,414 million from Honduras, US$2,222 million from Cambodia, US$1,638 million from El Salvador and US$1,493 million from Pakistan for the year 2010. The table below sets out the 2010 USA total apparel import value distribution by countries.

2010 USA total apparel import distribution by Countries



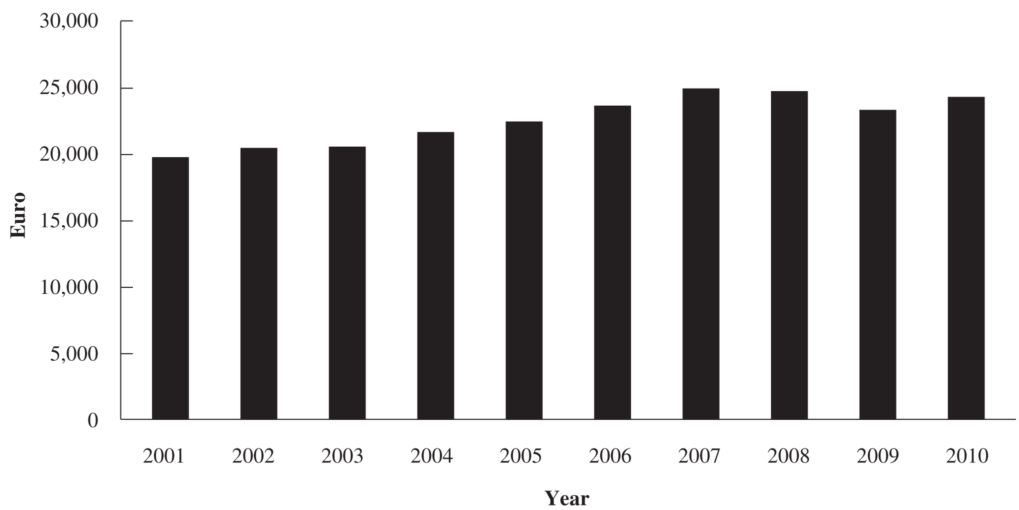
Source: International Trade Administration, U.S. Department of Commerce, published in September 2011

EUROPE APPAREL INDUSTRY

Overview of the Europe Economy

According to the statistics published by Eurostat, the EU GDP per inhabitant increased constantly from approximately Euro 19,800 in 2001 to approximately Euro 25,000 in 2008, with a CAGR of approximately 3.39%. The sudden decrease in the GDP per inhabitant of EU in 2009 was mainly due to the adverse effect of the global financial crisis. The severe and significant damage to the worldwide economy including the Europe can be shown from the significant drop in 2009 GDP. The GDP per inhabitant of EU increased from Euro 23,500 in 2009 to Euro 24,400 in 2010 due to the recovery of the economy of Europe. The following chart sets forth the historical annual GDP per inhabitant between 2000 and 2010 for the EU.

EU GDP per inhabitant

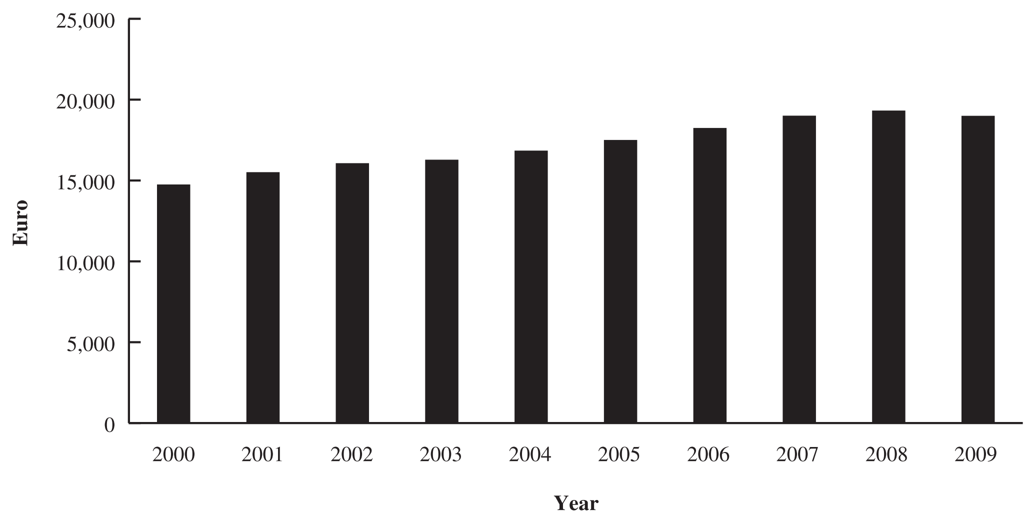


Sources: Eurostat

Per capita disposable personal income of Europe

According to the statistics published by Eurostat, the real adjusted gross disposable income of households per capita has increased from Euro14,714 in 2000 to Euro18,918 in 2009, representing a CAGR of 2.83% for the period between 2000 and 2009. Real adjusted gross disposable income of households per capita is calculated as the adjusted gross disposable income of households and non-profit institutions serving households divided by the purchasing power parities of the actual individual consumption of households and by the total resident population. The following chart shows the real adjusted gross disposable income of households per capita in the EU for the period from 2000 to 2009.

EU real adjusted gross disposable income of households per capita

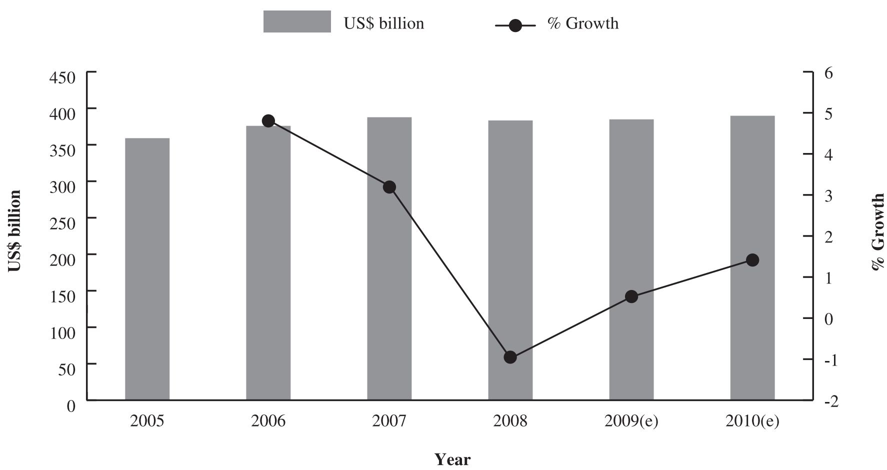


Sources: Eurostat

Europe apparel retail industry value

The Europe apparel retail industry had forecast total revenue of US$389.1 billion in 2010, representing a CAGR of 1.7% for the period spanning 2005–2010(e). In comparison, the United States and PRC industries grew with CAGRs of 3.0% and 7.4% respectively, over the same period, to reach respective values of US$310.5 billion and US$107.9 billion in 2010. Sales of womenswear proved to be the most lucrative for the Europe apparel retail industry in 2009, with total revenues of US$206,988 million, equivalent to 53.9% of the market's overall value. In comparison, sales of menswear generated revenues of US$121,429.3 million in 2009, equating to 31.6% of the industry's aggregate revenues. The following chart sets out the Europe apparel retail industry value for the period from 2005 to 2010(e).

Europe apparel retail industry value, 2005–10(e)

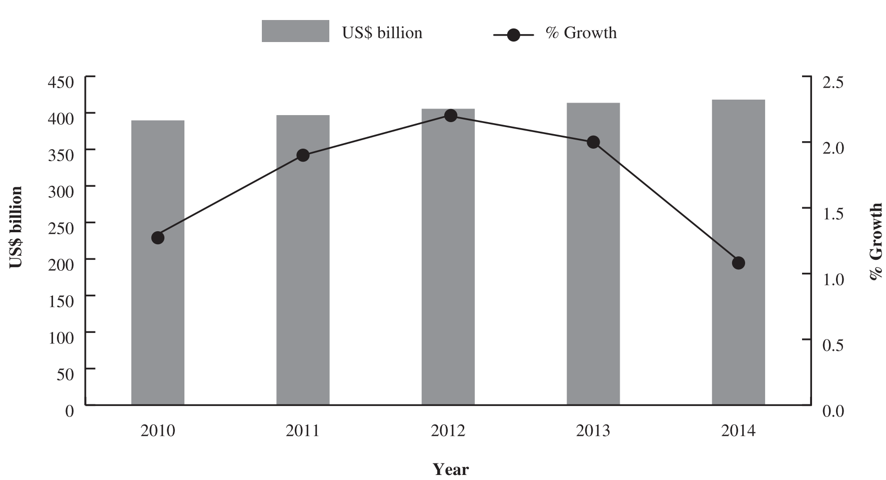


Source: Datamonitor, published in May 2010

Note: The estimated figures in 2009 and 2010 were the latest data which can be found in the report compiled by Datamonitor.

The performance of the industry is forecast to remain similar, with an anticipated CAGR of 1.8% for the four-year period 2010–2014, which is expected to drive the industry to a value of US$417.5 billion by the end of 2014. Comparatively, the United States and PRC industries will grow with CAGRs of 2.0% and 5.3% respectively, over the same period, to reach respective values of US$335.5 billion and US$132.9 billion in 2014. The following chart sets out the forecast of Europe apparel retail industry value from 2010 to 2014.

Europe apparel retail industry value forecast, 2010–2014



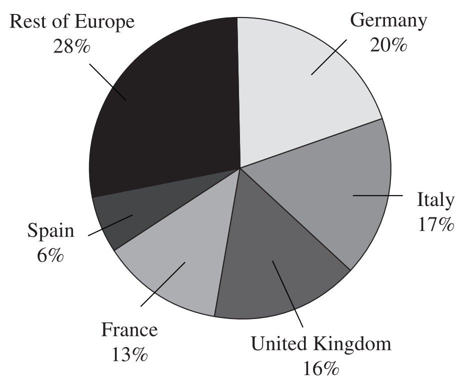
Source: Datamonitor, published in May 2010

Note: The estimated figures from 2010 to 2014 were the latest data which can be found in the report compiled by Datamonitor.

Europe apparel retail market segmentation

Germany, Italy, United Kingdom and France apparel retail market in aggregate accounts for over 60% of the Europe apparel retail industry value. Germany accounts for approximately 20%, Italy accounts for approximately 17%, United Kingdom accounts for approximately 16% and France accounted for approximately 13% of the European industry. The chart below shows the market segmentation of the Europe apparel retail industry segmentation, by value.

Europe apparel retail industry segmentation % share, by value, 2009(e)



Source: Datamonitor, published in May 2010

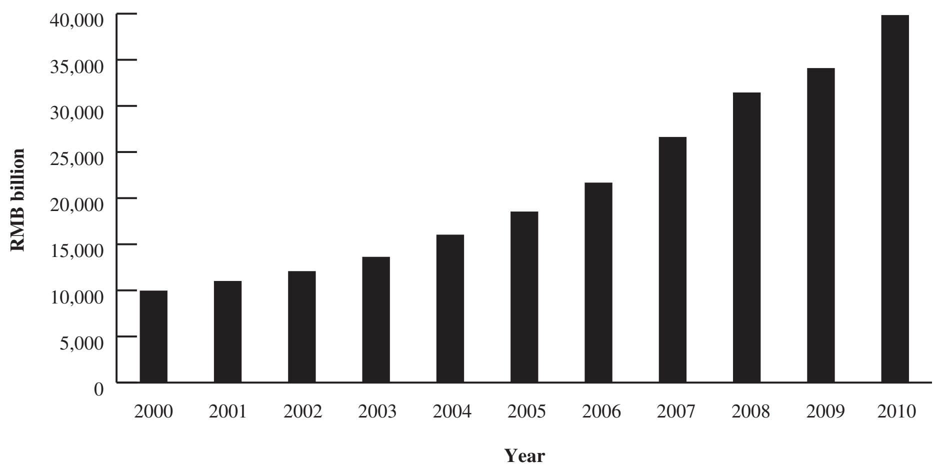
Note: The estimated figure in 2009 was the latest data which can be found in the report compiled by Datamonitor.

PRC APPAREL INDUSTRY

Growth of the PRC economy

The PRC economy has been growing rapidly since the implementation of market liberalisation policies by the PRC Government in the late 1970s. The economic growth was further enhanced by the launch of special economic zones along the coastal area of the PRC in the early 1990s. According to the statistics published by National Bureau of Statistics of China, the nominal gross domestic product increased from RMB9,921.5 billion in 2000 to RMB39,798.3 billion in 2010, and the CAGR of the period is 16.7%. It reflects a rapid growth of the PRC economy. The following chart shows the GDP between 2000 and 2010 for China.

PRC GDP



Source: China Statistical Yearbook 2010 published by National Bureau of Statistics of China
GDP for 2010 is preliminary verification result published on website of National Bureau of Statistics of China

Accelerating urbanisation trend in the PRC

The urbanisation of the PRC has been accompanied by the rapid economic growth of the PRC. Populations in the urban areas have expanded with the migration of people from the rural and less developed areas to the urban cities. The total urban population in the PRC has increased from 480.64 million in 2001 to 621.86 million in 2009. For the period between 2001 to 2009, the CAGR of the urban population of the PRC is 3.27% while the CAGR of the total population of the PRC is only 0.56%. The portion of urban population to total population in the PRC increased from 37.7% in 2001 to 46.6% in 2009. The following chart and table set out the composition of the PRC population.

PRC population composition by residence

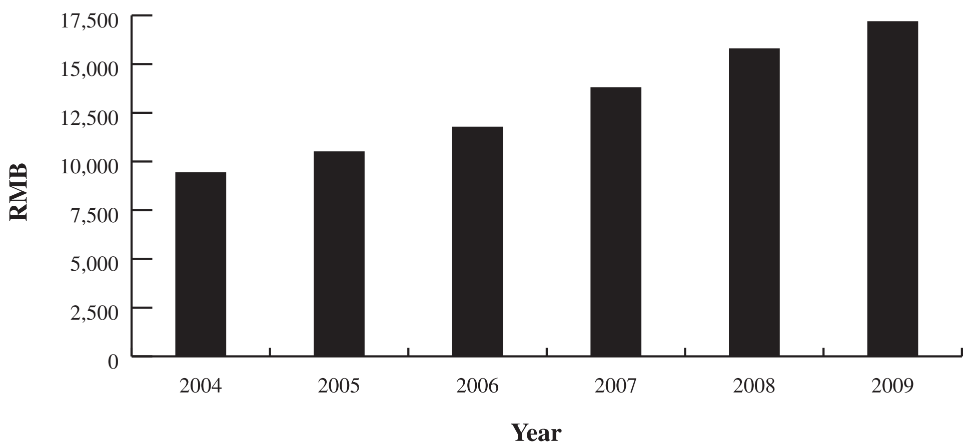
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Rural Population (In million)	795.63	782.41	768.51	757.05	745.44	737.42	727.5	721.35	712.88
	62.3%	60.9%	59.5%	58.2%	57.0%	56.1%	55.1%	54.3%	53.4%
Urban Population (In million)	480.64	502.12	523.76	542.83	562.12	577.06	593.79	606.67	621.86
	37.7%	39.1%	40.5%	41.8%	43.0%	43.9%	44.9%	45.7%	46.6%
Total Population (In million)	1,276.27	1,284.53	1,292.27	1,299.88	1,307.56	1,314.48	1,321.29	1,328.02	1,334.74

Source: China Statistical Yearbook 2010 published by National Bureau of Statistics of China

Disposable income growth of the urban households in the PRC

Associated with the rapid growth of the PRC economy and GDP, the disposal income of urban households has increased significantly implying that the living standards of urban households have improved. According to statistics published by the National Bureau of Statistics of China, per capita annual disposable income of the PRC urban households has increased from RMB9,421.6 in 2004 to RMB17,174.7 in 2009. The CAGR during this period is approximately 12.8%, and the chart below shows the per capita disposable income levels of urban households in the PRC from 2004 to 2009.

Per capita annual disposal income of urban households in the PRC

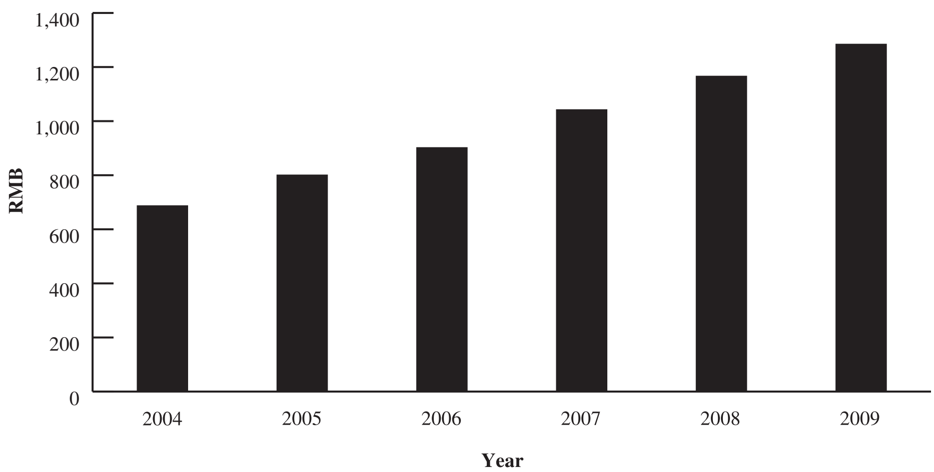


Source: China Statistical Yearbook 2010 published by National Bureau of Statistics of China

Annual consumption expenditure on clothing of urban households in the PRC

According to the statistics published by National Bureau of Statistics of China, annual consumption expenditure on clothing per urban households capita in the PRC has grown by approximately 87.0%, from RMB686.8 in 2004 to RMB1,284.2 in 2009, representing a CAGR of 13.3%. As mentioned above, the level of per capita disposable income increased, the households now focus more on the brand image, product design and style of the clothes. The following chart shows the per capita annual consumption expenditure on clothing of the PRC urban households from 2004 to 2009.

Per capita annual consumption expenditure on clothing

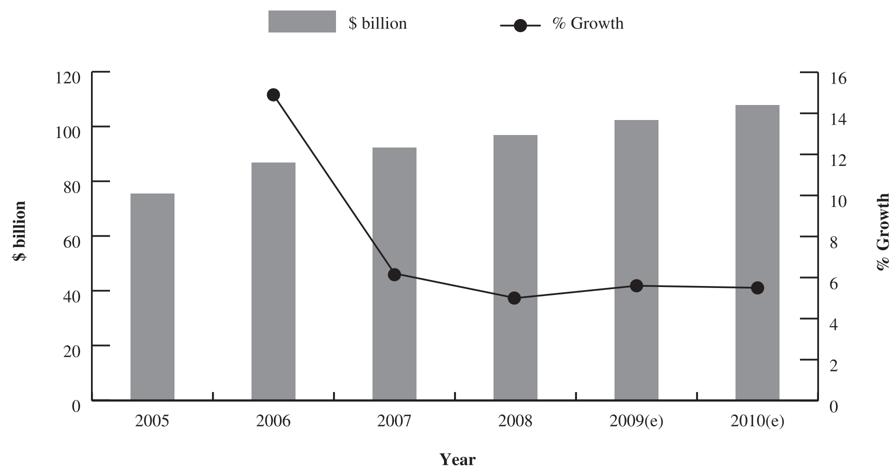


Source: China Statistical Yearbook 2010, 2008 and 2006 published by National Bureau of Statistics of China

PRC apparel retail industry value

The PRC apparel retail industry had forecast total revenue of US$107.9 billion in 2010, representing a CAGR of 7.4% for the period spanning 2005–2010(e). Sales of menswear proved the most lucrative for the PRC apparel retail industry in 2009, with total revenues of US$45.4 billion, equivalent to 44.4% of the market's overall value. In comparison, sales of womenswear generated revenues of US$35.7 billion in 2009, equating to 34.9% of the industry's aggregate revenues. The following chart sets out the PRC apparel retail industry value for the period from 2005 to 2010(e).

PRC apparel retail industry value, 2005–10(e)

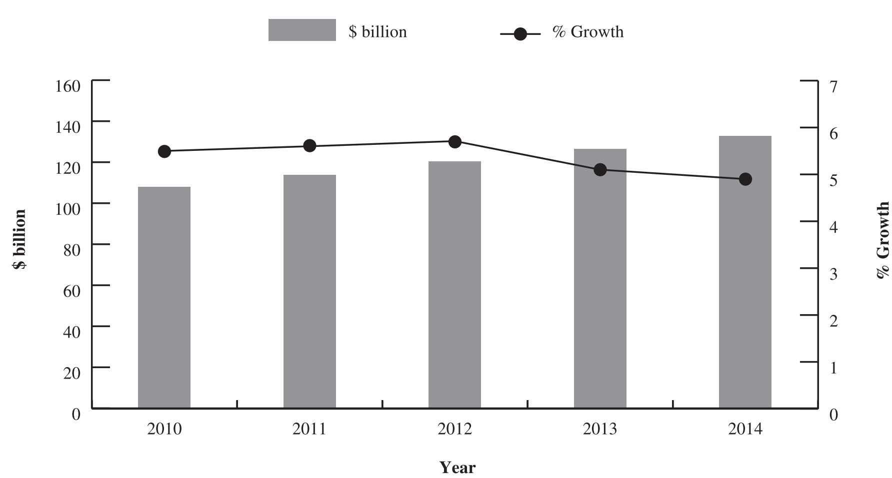


Source: Datamonitor, published in December 2010

Note: The estimated figures in 2009 and 2010 were the latest data which can be found in the report compiled by Datamonitor.

The performance of the industry is anticipated to have a CAGR of 5.3% for the four year period 2010–2014, which is expected to drive the industry to a value of US$132.9 billion by the end of 2014. The following chart sets out the PRC apparel retail industry value forecast for the period from 2010 to 2014.

PRC apparel retail industry value forecast, 2010–2014



Source: Datamonitor, published in December 2010

Note: The estimated figures from 2010 to 2014 were the latest data which can be found in the report compiled by Datamonitor.

According to the data published by Ministry of Industry and Information Technology of the People's Republic of China, the aggregate retail value of the apparel products in PRC of approximately RMB372.7 billion for the six months ended 30 June 2011, representing an increase of approximately 23.9% as compared to corresponding period in previous year. The aggregate export value of the knitting products in PRC of approximately US$45.9 billion for the six months ended 30 June 2011, representing an increase of approximately 28.8% as compared to corresponding period in previous year. The above figures support that the PRC's apparel industry is still in a rapid growth rate.

SOURCES OF INFORMATION

Datamonitor

The Datamonitor Group is an international provider of premium global business information, delivering independent data, analysis and opinion across the Automotive, Consumer Packaged Goods, Energy & Sustainability, Financial Services, Logistics & Express, Pharmaceutical & Healthcare, Retail, Sourcing, Technology and Telecoms industries. Some of the information and statistics presented in this section are derived from the ready-made publications prepared by Datamonitor regarding the apparel retail market in the USA, Europe and the PRC. The total cost for the Datamonitor ready-made publications are US$750. Datamonitor compiled the ready-made publications by (i) primary research with industry panels and consumers; and (ii) secondary research to aggregate and analyze a number of secondary information sources, including national and governmental statistics; international data; national and international trade associations; broker and analyst reports; business information libraries and databases.

Bureau of Economic Analysis, U.S. Department of Commerce

The Bureau of Economic Analysis is an agency of the Department of Commerce, and is under direct control of the Department Economics and Statistics Administration in the United States. The agency produces economic accounts statistics that enable government and business decision-makers, researchers, and the public to follow and understand the performance of the USA economy. The information presented in this document from Bureau of Economic Analysis is freely accessible by the public.

China Cotton Association

China Cotton Association is a non-profit organisation in the area of cotton with the status of national mass organisation legal person, which is voluntarily established by cotton farmers, cotton farmers' cooperative organisations, enterprises engaged in cotton production, purchase, processing and operation, cotton textile enterprises, cotton research institutes and other organisations and which accepts the supervision and management of the Ministry of Civil Affairs and the professional guidance of the All-China Federation of Supply and Marketing Cooperatives.

Eurostat

Eurostat is a directorate-general of the European Commission located in Luxembourg. Its main responsibilities are to provide the EU with statistical information at European level and to promote the harmonization of statistical methods across the member states of the EU, candidate countries and the

European Free Trade Association countries. By doing such it allows its member in the EU and foreign countries to have easy access to statistics at European level that enable comparisons between countries and regions. The information presented in this document from Eurostat is freely accessible by the public.

International Monetary Fund

The International Monetary Fund ("IMF") works to foster international monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. Created in 1945, the IMF is governed by and accountable to the 187 countries that make up its near-global membership.

International Trade Administration, U.S. Department of Commerce

The International Trade Administration ("ITA") is an agency in the United States Department of Commerce. ITA strengthens the competitiveness of the USA industry, promotes trade and investment, and ensures fair trade through the rigorous enforcement of their trade laws and agreements. ITA works to improve the global business environment and helps the USA organisations compete at home and abroad. The information presented in this document from ITA is freely accessible by the public.

The International Trade Centre

The International Trade Centre ("ITC") work in partnership with the World Trade Organisation and the United Nations Conference on Trade and Development, supporting their regulatory, research and policy strategies and helping to turn them into practical projects. Since 1964, ITC has helped to enable small business export success in developing countries by providing trade development programmes to the private sector, trade support institutions and policymakers.

The National Bureau of Statistics of China

The National Bureau of Statistics of China is the official agency under the direct supervision of the State Council in charge producing and issuing statistics and economic accounting in the PRC. The information presented in this document from the National Bureau of Statistics of China is freely accessible by the public.

The United States Department of Agriculture

The United States Department of Agriculture is the United States federal executive department responsible for developing and executing the U.S. federal government policy on farming, agriculture, and food. It aims to meet the needs of farmers and ranchers, promote agricultural trade and production, work to assure food safety, protect natural resources, foster rural communities and end hunger in the United States and abroad. The information presented in this document from United States of Department of Agriculture is freely accessible by public.

This section sets out summaries of certain aspects of the regulations and requirements, which are relevant to the Group's operations and business in the PRC, EU and the United States.

PRC LAWS AND REGULATIONS

The principal PRC laws and regulations relevant to the Group's business are summarised in this section.

PRC LAWS RELATING TO FOREIGN INVESTMENT IN THE APPAREL INDUSTRY

Pursuant to《指導外商投資方向規定》(Provisions on Guiding the Orientation of Foreign Investment*) effective on 1 April 2002, foreign-funded projects fall into 4 categories, namely encouraged, permitted, restricted and prohibited ones. According to《外商投資產業指導目錄(2007年修訂)》(the Catalogue for the Guidance of Foreign Investment Industries (amended in 2007)) effective on 1 December 2007, foreign investment in production and sale of sweater is categorised as a permitted investment. Pursuant to《指導外商投資方向規定》(Provisions on Guiding the Orientation of Foreign Investment*), the permitted investment of which the products are all directly exported shall be regarded as the encouraged investment and an encouraged investment is entitled to receive certain benefits and incentives from the PRC government. According to the current effective business licence of Fung Ching, its business scope is production and sale of sweaters and is in compliance with the foreign investment industry policy of PRC. Fung Ching is entitled to do business pursuant to the aforesaid business scope approved in the business licence, and its lawful business activities are under the protection of relevant PRC laws and regulations.

PRC LAWS RELATING TO FOREIGN INVESTMENT IN PROCESSING TRADE

Pursuant to《加工貿易審批管理暫行辦法》(Interim Measures of the Approval and Management of Processing Trade*) promulgated on 27 May 1999 and became effective on 1 June 1999, "processing trade" means the business activity of bonded import from abroad of all or some raw and secondary materials, components, parts, mechanical components and packing materials ("Imported Materials and Parts") and the re-export thereof as finished products after processing or assembling by an enterprise in China. It includes processing of supplied materials and processing of purchased materials. "Operating enterprise" means any type of import and export enterprise or foreign-invested enterprise which is responsible for entering into a foreign processing trade import and export contract as well as export processing and assembling service companies which have been approved and have obtained permission to engage in the business of processing business. Operating enterprises engaging in processing trade must first be examined and receive the approval of the authority for foreign economic relations and trade. Fung Ching, as a foreign-invested enterprise, has obtained the necessary approval from the relevant authority for foreign economic relations and trade to conduct import processing business. "Processing enterprise" means a production enterprise with legal person status which accepts the entrustment of an operating enterprise and is responsible for processing or assembling Imported Materials and Parts, as well as factories established by operating enterprises which, although lacking legal person status, keep relatively independent accounts and have obtained a business permit (licence). A processing enterprise shall be with appropriate production capability. The signing, renewal and changes of the contracting parties of the Master Processing Agreement has been approved by the authority for foreign economic relations and trade. The contract processing business and operation of the Processing Factory under the Master Processing Agreements and the Supplemental Processing Agreements is in compliance with the aforesaid measures.

PRC LAWS RELATING TO FOREIGN EXCHANGE

Pursuant to《外商投資企業外匯登記管理暫行辦法》(Interim Measures of the Foreign Exchange Registration of Foreign-Invested Enterprises*) promulgated on 28 June 1996 and became effective on 1 July 1996, foreign-invested enterprises shall apply for foreign exchange registration within 30 days since the collection of the business licence. Fung Ching, as a foreign-invested enterprise, has obtained foreign exchange registration certificate pursuant to the aforesaid measures.

Pursuant to《中華人民共和國外匯管理條例》(Regulations on Foreign Exchange Control of the PRC*) promulgated on 29 January 1996, effective on 1 April 1996 and amended on 5 August 2008, the current account incomes of foreign exchanges can be retained or sold to financial authorities which manage exchange settlement and sale-purchase of foreign exchange. However, approval from SAFE is required for the relevant capital account transactions of the foreign-invested enterprises, such as the capital increase and decrease.

Pursuant to《關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知》(Circular on Issues Concerning Outward Remittance of Profit, Stock Dividends and Stock Bonuses Processed by Designated Foreign Exchange Banks*) and《關於修改〈關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知〉的通知》(Circular on Amending "Circular on Issues Concerning Outward Remittance of Profit, Stock Dividends and Stock Bonuses Processed by Designated Foreign Exchange Banks"*), foreign investors of foreign-invested enterprises shall remit profits, dividends or stock bonuses abroad at designated foreign exchange banks with the documents including but not limited to tax-paid certificate and taxation declaration form, auditing report, the board of directors' resolution on the distribution of profits, stock dividends or stock bonuses, foreign exchange registration certificate, capital assessment report. There is no material impediment for Fung Ching to remit the foreign investor's profits, stock dividends and stock bonuses acquired by law in accordance with the procedure and requirement stipulated in the relevant PRC laws and regulations.

PRC LAWS RELATING TO QUALITY

《中華人民共和國產品質量法》(The Product Quality Law of the PRC*) effective on 1 September 1993, amended on 8 July 2000 and on 27 August 2009 respectively.《中華人民共和國產品質量法》(The Product Quality Law of the PRC*) applies to all production and marketing activities within the territory of the PRC. Producers and sellers shall have their own proper regulations for the management of product quality, rigorously implementing post-oriented quality regulations, quality liabilities and relevant measures for their assessment. The relevant government authorities encourage the enterprises to ensure the quality of their products achieve and surpass the industrial, national and the international standards.

PRC LAWS RELATING TO ENVIROMENTAL PROTECTION

The PRC laws and regulations on environmental protection include《中華人民共和國環境保護法》(Environmental Protection Law of the PRC*) promulgated and effective on 26 December 1989;《中華人民共和國大氣污染防治法》(Air Pollution Prevention of the PRC*) amended on 29 April 2000 and effective on 1 September 2000;《中華人民共和國水污染防治法》(Law of the PRC on the Prevention and Control of Water Pollution*) amended on 28 February 2008 and effective on 1 June 2008 and (the relevant implementing regulations) promulgated and effective on 20 March 2000.

Pursuant to the laws and regulations stated above, an enterprise that discharges and dispenses toxic and hazardous materials including waste water, solid waste and waste gases, shall comply with the applicable national and local standards, as well as report to and register with the applicable environmental protection authority. Failure to comply can result in a warning, an order, or a penalty against the enterprise. The Processing Factory has applied for and obtained pollutants discharge permit pursuant to the relevant environmental protection laws and regulations and its discharge or dispensation of toxic and hazardous materials (if any) shall comply with the aforesaid laws and regulations. As confirmed by the Company, Fung Ching only handles pre-laundering production procedures which does not involve discharge or dispensation of toxic and hazardous materials including waste water, solid waste and waste gases, Fung Ching did not apply for pollutants discharge permit.

PRC LAWS RELATING TO LABOUR

Pursuant to《中華人民共和國勞動法》(PRC Labour Law*) effective on 1 January 1995 and amended on 27 August 2009 and《中華人民共和國勞動合同法》(PRC Labour Contract Law*) promulgated on 29 June 2007 and effective on 1 January 2008, if an employment relationship is established between an entity and its employees, written labour contracts shall be prepared. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the State on occupational safety and sanitation, educate employees on occupational safety and sanitation prevent accidents at work and reduce occupational hazards.

Pursuant to《工傷保險條例》(Regulations on Occupational Injury Insurance*) effective on 1 January 2004 and amended on 20 December 2010 and《企業職工生育保險試行辦法》(Interim Measures concerning the Maternity Insurance for Enterprise Employees*) promulgated on 14 December 1994 and effective on 1 January 1995, PRC companies shall pay occupational injury insurance premium and maternity insurance premiums for their employees.

Pursuant to 《中華人民共和國社會保險法》(PRC Social Insurance Law*), effective on 1 July 2011, PRC companies and their employees are required to contribute to the social insurance plan which covers the basic endowment insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

Pursuant to《住房公積金管理條例》(Regulation on the Administration of Housing Fund*) promulgated and effective on 3 April 1999, amended on 24 March 2002, PRC companies must register with the applicable housing fund management centre and establish a special housing fund account with an entrusted bank. Each of the PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage during the preceding year.

PRC LAWS RELATING TO TAXATION

The EIT Law became effective on 1 January 2008, replacing《中華人民共和國外商投資企業和外國企業所得稅法》(Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises) and《中華人民共和國企業所得稅暫行條例》(Provisional Regulations of the PRC on Enterprise Income Tax*). The EIT Law imposes a single uniform tax rate of 25% for most domestic enterprises and foreign-invested enterprises and contemplates various transitional periods and procedures.

Pursuant to《中華人民共和國增值稅暫行條例》(Interim Regulation of the People's Republic of China on Value Added Tax*), which was amended on 5 November 2008 and effective form 1 January 2009 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services and the importation of goods are required to pay VAT. The VAT rate for those providing processing services, repairs and replacement services is 17%. The VAT rate for those engaging in export of goods, except otherwise provided by the State Council is zero.

PRC LAWS RELATING TO RETENTION OF PROFITS

Pursuant to《中華人民共和國外資企業法實施細則》(Rules for the Implementation of the Law of the People's Republic of China on Foreign-invested Enterprises*) effective on 12 December 1990 and amended on 12 April 2001, the foreign-invested enterprise shall retain certain amount from its profits after the income tax has been paid in accordance with Chinese tax law as reserve funds, bonus and welfare funds for workers and staff members. The amount retained for the reserve funds shall not be less than 10% of the profits (profits after the income tax has been paid); the retention for reserve funds may stop when the accumulated amount of retained reserve funds has been up to 50% of the registered capital of the enterprise. The amount retained for bonus and welfare funds for workers and staff members shall be determined by the foreign-invested enterprise itself.

EU REGULATIONS

Customers whose headquarter locations are in Europe represented the second largest segment of the Group's turnover by geographical location during the Track Record Period. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively, the Group's turnover attributable to sales to such customers accounted for approximately 16.0%, 15.2%, 14.6% and 13.0% of the Group's total turnover. Therefore, the Group's sales to customers in Europe are subject to certain EU regulations and directives and those relevant to the Group's business are summarized in this section.

EU Trade-related Laws and regulations

The EU is an economic, political and cultural union of 27 member states located primarily in Europe. Committed to regional integration, the EU and its 27 EU member states have a common trade policy and act as one single jurisdiction in all trade-related matters.

Pursuant to its exclusive competence, the EU has developed a broad array of legislative instruments (regulations and trade agreements) in the trade sphere.

EU Import Duties and Tariff

Custom duties

One of the most important aspects of the EU trade policy is that the EU is a customs union. The same import duties are charged on imports from third countries regardless of the country of entry. The main principles of custom law are regulated at EU level, while the customs authorities of the EU member states are in charge of their application. In addition, trade remedies against unfair trade practices (i.e. anti-dumping and countervailing measures) and safeguards are adopted by the EU and imposes on the imports concerned regardless of the country of origin.

Tariff and Non-tariff measures

Products imported into the EU are distinguished at the 8-digit level of the Combined Nomenclature which lists the duty rates applicable to each product. The customs authorities in all 27 member states are obliged to impose the Common Customs Tariff on imports.

In addition to tariffs, the EU has a tradition of making significant use of various non-tariff measures to restrict imports. Non-tariff barriers include not only quantitative restrictions but also regulatory barriers. Specific examples of the quantitative restrictions include import quotas, voluntary export restraints and licensing, while examples of the regulatory barriers include prohibitions for health and safety reasons. Anti-dumping, anti-subsidy and safeguard measures are another important form of trade instruments that lead to restrictions on trade and generally affect the whole Community.

EU Import Regulations

Import licensing

All members of the EU have adopted a common trade policy towards imports from third countries. The EU has a relatively liberal import regime. In general, import licensing is not required for products entering an EU country, except for certain sensitive products like agricultural goods, tobacco, weapons, etc., and products governed by quantitative restrictions (i.e. quotas) and surveillance.

Quotas

The EU has quantitative restrictions in place with respect to certain products coming from various countries. In particular, quotas have been established on certain categories of textiles from Mainland China. In addition, the importation of other products (e.g. many agricultural products) may also be subject to tariff quotas.

Restrictions and prohibitions

The EU has restrictions and prohibitions in place in relation to the importation of some products such as counterfeit and pirated goods. The customs authorities of the EU member states may intervene where goods are suspected of infringing intellectual property rights. The intervention may lead to the destruction of the imported goods as well as the imposition of fines on the importer. The EU can impose safeguard measures against textile and non-textile products from Mainland China by using the general safeguard instrument. The instrument was adopted in 2003 pursuant to the Mainland China's Protocol of Accession to the WTO and therefore only applies to Chinese mainland-origin imports. The safeguards can be triggered if textile imports of Mainland China origin which are covered by the WTO Agreement on Textiles and Clothing threaten to impede, owing to market disruption, the orderly development of trade in those products within the EU.

Copyrights and use of trademarks with respect to imports

Goods imported into the EU must not infringe any intellectual property rights, including patents, copyrights and trademarks, which other operators may hold in the EU. Exporters should inquire into whether the goods they want to export to the EU are already subject to a patent, copyright, trademark or any other intellectual property right in any of the EU member states, and obtain, if necessary, an appropriate licence from the right-holder.

Product Safety in the EU

The EU aims to achieve a high level of product safety protection directly linked to the protection of consumer health across all the member states of the EU.

General Product Safety — Directive 2001/95/EC (the "GPSD Directive")

Directive is a form of the legal acts of the EU which require the member states to achieve certain result while leaving the member states discretion as to how to achieve the results. The GPSD Directive generally applies to all the member states of the EU on ensuring the consumer products sold in the EU are safe. The original GPSD Directive was adopted in 1992 and had been revised once in the form of Directive 2001/95/EC, which had to be implemented in the member states of the EU by 15 January 2004.

The objective of the GPSD Directive is to protect the health and safety of the consumers of the products in the EU. It requires manufacturers to place only safe products on the EU market. In case the manufacturer is not based in the EU, this obligation applies to its representative in the EU or, in the absence of a representative, to the importer.

The Registration, Evaluation, Authorisation of Chemicals ("REACH Regulation")

The REACH Regulation was first published on 18 December 2006 and later enforced on 1 June 2007. The aim of the REACH Regulation is to protect human health and environment through the better and earlier identification of the intrinsic properties of harmful chemical substances contained in the consumer products.

The REACH Regulation takes into account of the use of specific chemical substances in consumer products. These specific chemical substances are being included in candidate list of Substances of Very High Concern for Authorisation (the "Candidate List") on the website of the European Chemicals Authority. If a chemical substance listed on the Candidate List is contained in a consumer product, this may trigger additional obligations for the manufacturers, importers and retailers to supply this consumer product in the EU.

Consumer Protection in the EU

Consumer protection legislation and policy are central to the EU objectives of achieving a high standard of quality for its citizens. Articles 153 and 95 of the EC Treaty lay out the aims for promoting the interests, health and safety of consumers in the EU. Such articles govern the economic and health protection of consumers, the safety of products and the free movement of only safe goods within the EU.

The Sale of Consumer Goods and Associated Guarantees (the "Directive 1999/44/EC")

The Directive 1999/44/EC, which was adopted in May 1999 and required to be implemented in the member states by 1 January 2002, is a directive at the EU level for all sellers of goods. The relevant provisions of the Directive 1999/44/EC provide consumer with a uniform minimum level of legal rights to remedies in the event of non-conformity of a product with the sale contract at the time of delivery. According to the Directive 1999/44/EC, sellers must deliver only such goods to the consumer that are in conformity with the contract seller's description in the sale fit for the purposes required by the consumer as made know by him to the seller, fit for their normal intended purpose and quality and performance normally as expected to products of this type.

The Liability for Defective Products (the "Directive 85/374/EEC")

The Directive 85/374/EEC, a directive issued by the Council of the EU and published on 7 August 1985, states that manufacturers shall be liable for damage caused by defects in their products to their product consumers. The Directive 85/374/EEC is important for all sellers in the EU as any defect in the goods leading to damage, defined as death or personal injury or damage to any item of property, can make more than one party in the chain between the manufacture and sale liable therefor.

Anti-Dumping in the EU

Pursuant to the Council Regulation (EC) No. 1225/2009 of 30 November 2009 ("Council Regulation"), the European Commission is responsible for investigating into allegations of dumping within the EU. It usually conducts an investigation either upon receipt of a complaint from producers of the product within the EU or on its own initiative. The investigation must show that (i) there is dumping pursuant to article 2 of the Council Regulation by the exporting producers in the country/countries concerned; (ii) material injury has been suffered by the industry concerned within the EU; (iii) there is a causal link between the dumping and injury found; and (iv) the imposition of measures is not against the interest of the EU.

If the investigation comes to the conclusion that the above four conditions have been met, then anti-dumping measures may be imposed on imports of the product concerned. These measures are usually duties or price undertakings. The duties are paid by the importer in the EU and collected by the national customs authorities of the respective EU countries. Exporting producers may offer "undertakings" agreeing to sell at a minimum price, for example. If their offer is accepted, anti-dumping duties will not be imposed on imports. The European Commission is not obliged to accept an offer of an undertaking.

Besides the measures taken by the European Commission, most of the EU member states have national legislation not allowing the sale of goods below their costs of production unless such sale is for a short period of time or under special event. In Germany, the Act against Restraints of Competition (Gesetz gegen Wettewerbsheschrankungen, GWB) and the Fair-Trade Law (Gesetz gegen den unlauteren Wettbewerb, UWG) are applicable for these actions. These legislations are enforced by the national anti-trust authorities. Investigations might result in damage claims against the importer in the EU by local producers.

During the Track Record Period, none of the products produced by the Group had been subject to any anti-dumping investigations or measures in the EU.

US REGULATIONS

The majority of the Group's products are sold to customers whose headquarter locations are in the US during the Track Record Period. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively, the Group's turnover attributable to sales to such customers accounted for approximately 74.6%, 75.2%, 76.0% and 75.6% of the Group's total turnover. Accordingly, the Group's sales to customers in the US are subject to certain US laws and regulations and those relevant to the Group's business are summarized in this section.

US Import Regulations

US import quotas may be divided into two types: absolute and tariff rate.

Absolute Quotas

Absolute quotas are quantitative, that is, no more than the amount specified is permitted entry during the quota period. Some absolute quotas are global, while others are allocated to specified countries. Imports in excess of a specified quota may be held until the opening of the next quota period by placing them in a foreign trade zone ("FTZ") or entering them into a warehouse, or they may be exported or destroyed under the US Customs and Border Protection ("CBP") supervision.

Tariff Rate Quotas ("TRQs")

TRQs provide for the entry of a specified quantity of the product at a reduced rate of duty during a given period. There is no limitation on the amount of the product that may be entered during the quota period, but quantities entered in excess of the quota for that period are subject to higher duty rates.

Regulating Quotas

On 8 November 2005, the United States and China signed a Memorandum of Understanding ("MOU") Concerning Trade in Textiles and Apparel and was in effect from 1 January 2006, through 31 December 2008. After the MOU expired at the end of the 2008, textile and apparel imports from China became subject to normal WTO disciplines and U.S. trade remedy mechanisms.

Visa Requirements

A textile visa is an endorsement in the form of a stamp on an invoice or export control license that is executed by a foreign government. It is used to control the exportation of textiles and textile products to the US and to prohibit the unauthorised entry of such merchandise into the US. A visa may cover either quota or non-quota merchandise. Conversely, quota merchandise may or may not require a visa depending upon the country of origin. A visa does not guarantee entry of the merchandise into the US. If the quota closes between the time the visa is issued in the foreign country and the shipment's arrival in the US, the shipment will not be released to the importer until the quota opens again.

The Electronic Visa Information System ("ELVIS") uses electronic data transmissions for information, particularly visa stamps, normally found on commercial invoices and was developed by CBP to assists its efforts to monitor textile quotas, thereby ensuring that proper restraint levels are charged.

Effective as of 1 January 2009 the Committee for the Implementation of Textile Agreements has canceled the ELVIS requirements and quota reporting requirements for textiles and textile products produced or manufactured in the PRC and exported on and after 1 January 2009. Effective as of 1 July 2009, the ELVIS requirement and quota reporting requirements for goods exported from the PRC prior to 1 January 2009 have also been canceled.

US Import Duties and Tariff

Custom Duties

All goods imported into the US are either subject to duty or duty free, depending on their classification under the applicable items in the HTSUS.

When goods are dutiable, *ad valorem*, specific or compound rates may be assessed.

- *ad valorem* rate — the type most often applied — is a percentage of the value of the merchandise, such as 5% *ad valorem*.

- A specific rate is a specified amount per unit of weight or other quantity, such as 5.9 cents per dozen.

- A compound rate is a combination of both an *ad valorem* rate and a specific rate, such as 0.7 cents per kilo plus 10% *ad valorem*.

Rates of duty for imported merchandise may also vary depending upon the country of origin. Most merchandise is dutiable under normal trade relations. Duty free status is available under various exemptions (e.g., Generalised System of Preference, Free Trade Agreements, preference program beneficiaries, and other exemptions listed in HTSUS Chapter 98).

Tariff and Non-tariff measures

All goods that enter the US are categorised according to the Harmonized Tariff Schedule of the US ("HTSUS"). The United States International Trade Commission maintains and publishes the HTSUS, but CBP is responsible for interpreting and enforcing it.

The HTSUS comprises a hierarchical structure for describing all goods in trade for duty, quota, and statistical purposes. This structure is based upon the international Harmonised Commodity Description and Coding System ("HS") administered by the World Customs Organisation ("WCO"). The four- and six-digit HS product categories are subdivided into unique eight-digit US duty rate lines and 10-digit non-legal statistical reporting categories. Classification of goods in this system must be done in accordance with the General and Additional US Rules of Interpretation, starting at the four-digit heading level to find the most specific provision and then moving to the subordinate categories.

The HTSUS is divided into almost 100 chapters, grouped by product type. Textile and textile articles are grouped under Section XI of the HTSUS.

Product Quality and Consumer Protection

The importation of certain classes of merchandise may be prohibited or restricted to protect the economy and security of the US, to safeguard consumer health and well being, or to preserve domestic plant and animal life.

Many of these prohibitions and restrictions are prescribed by the laws and regulations administered by CBP or by other US government agencies with which CBP co-operates in enforcement. This applies to all types of importations, including those made by mail and those placed in FTZs.

Any consumer product offered for importation will be refused admission if it (a) fails to comply with an applicable product safety standard or regulation or with a specified labeling or certification requirement, or (b) is determined to present a substantial product hazard. These requirements are administered by the U.S. Consumer Product Safety Commission.

Copyrights and use of trademarks with respect to imports

Articles bearing counterfeit trademarks are subject to seizure and forfeiture. Marks that copy or simulate a registered trademark that has been recorded with CBP are subject to detention and possible seizure and forfeiture. The importation of "parallel" or "grey market" goods is restricted where the registered trademark has been recorded with CBP and grey market protection has been afforded.

Articles imported into the US that are piratical of a registered copyright are subject to seizure and forfeiture.

Anti-Dumping in the US

In the United States, the United States International Trade Commission and U.S. Department of Commerce share responsibility for investigating allegations of dumping, under authority granted by the Tariff Act of 1930 (19 U.S.C 1202 et. seq.). The standards and procedures employed by the United States federal agencies are analogous to those described above in respect of the EU. Where an investigation reveals that foreign products are being "dumped" into the United States, the U.S. Department of Commerce may impose appropriate countervailing duties as a remedy for the dumping activities.

During the Track Record Period, none of the products produced by the Group had been subject to any anti-dumping investigations or measures in the US.

HISTORY AND DEVELOPMENT

Fornton Holdings, Fornton Knitting and Nice Regent, the Hong Kong subsidiaries of the Group, were incorporated with limited liability on 16 December 1993, 1 February 1994 and 21 February 1995 respectively. Fornton Holdings (formerly known as Landford Enterprise Limited), is principally engaged in investment holding and is held by Madam Wong and Mr. Yam in equal shares. Fornton Knitting (formerly known as Max Eagle Industrial Limited) is principally engaged in garment manufacturing and is held by Madam Wong and Mr. Yam in equal shares. Nice Regent is principally engaged in general trading and investment and is held as to 70% by Mr. Wong and 30% by Mr. Yam. The Group commenced business in October 1994. The Group does not have its own labels, and has been engaging in the manufacturing of knitwear products including but not limited to pullovers, cardigans and jackets through the cooperation with the Former PRC Processing Party or PRC Processing Party (as the case may be) under the Processing Agreements since 1995. It has secured several major international apparel customers with their own labels such as Jones New York and Anne Klein for more than 10 years.

The Group has established its headquarter in Hong Kong since the commencement of its business whilst the manufacturing of the knitwear products has been carried out in the Processing Factory and the FC Factory since 1996 and 2006 respectively. The Group's headquarter in Hong Kong is responsible for the administration, finance, design and development, and sales and merchandising functions of the Group. The Group mainly manufactured menswear and womenswear for the international apparel groups based in USA and Europe whilst their products are sold in their chain stores, franchised stores under their labels, department stores and other specialty retailers around the world.

The Processing Factory was established on 31 October 1988 under its former name and was responsible for the manufacturing of knitwear products for the 1st and 2nd Former Foreign Party under the Master Processing Agreement and the 1st and 2nd Supplemental Processing Agreements, respectively. The terms of these agreements, all supplemental agreements entered into subsequently and the tenancy agreements relating to the leasing of the production premises for the Processing Factory and the FC Factory are set out in the paragraphs headed "Processing Agreements" and "Tenancy agreements" respectively under the section headed "Business" in this document.

The Group was not a party to the Master Processing Agreement and the 1st and 2nd Supplemental Processing Agreements. Shortly after the establishment of one of its major operating subsidiaries, Nice Regent, in February 1995, Nice Regent decided to establish manufacturing base in the PRC by entering into the processing arrangement and were subsequently introduced by a business acquaintance to the Former PRC Processing Party which is responsible for assisting the investors to look for the opportunity to enter into the processing arrangements. Through the introduction by the Former PRC Processing Party, on 21 April 1995, Nice Regent entered into the 3rd Supplemental Processing Agreement pursuant to which, among other things, (i) the 2nd Former Foreign Party's rights and obligations under the Master Processing Agreement (as amended by the 1st and 2nd Supplemental Processing Agreements) were transferred to Nice Regent; and (ii) the Processing Factory was renamed from 東莞市大朗洋陂永好毛織廠 (Dongguan Dalang Yangpo Yonghao Knitting Factory*) to 東莞市大朗巷尾豐臨針織廠 (Dongguan Dalang Xiangwei Fornton Knitting Factory*). Nice Regent became acquainted with the 2nd Former Foreign Party through introduction by the Former PRC Processing Party and was not required to pay any consideration to the 2nd Former Foreign Party for taking up the relevant rights and obligations under the Processing Agreements.

Later in May 1995, Nice Regent and the Former PRC Processing Party entered into the 4th Supplemental Processing Agreement pursuant to which Nice Regent agreed to provide, by way of lending, additional machinery to the Former PRC Processing Party for the production of knitwear products in the Processing Factory.

Pursuant to the Master Processing Agreement, the Former PRC Processing Party shall provide the production premises which can be and has been satisfied by it procuring the leasing of the production premise by a third party to Nice Regent. As such, on 30 March 1996, the Former PRC Processing Party procured 東莞市大朗鎮巷尾管理區 (Dongguan Dalang Xiangwei Administrative District*) now known as 東莞市大朗鎮巷尾社區居民委員會 (Dongguan Dalang Xiangwei Residents Committee*), an Independent Third Party, to enter into the Processing Factory Tenancy Agreement 1996 with Nice Regent to lease a production plant comprising an industrial building, a dormitory and other facilities of a total gross floor area of approximately 3,140 sq.m. located in Keng Wei Tang in Dongguan City, Guangdong Province, the PRC to Nice Regent as the production premises for the Processing Factory at an annual rental ranging from HK$250,000 to HK$360,000 for six years from 1 January 1996 to 31 December 2001. The part of the Processing Fees attributable to the costs of the production premise was paid by Nice Regent in the form of rental to the lessor.

After the commencement of business, the Group has secured two major customers with several labels namely Jones New York, and Anne Klein. Given the stable quality and timely delivery of the products throughout the years of cooperation between the Group and these two major customers, turnover generated from sales to these two major customers contributed an aggregate of approximately 80.4%, 83.3%, 85.6% and 88.0% of the Group's turnover during the Track Record Period respectively. The business relationships between the Group and these two major customers have sustained for more than 10 years.

On 9 September 1996, Nice Regent, the Former PRC Processing Party, the Processing Factory and the PRC Processing Party entered into the 5th Supplemental Processing Agreement pursuant to which, among other things, (i) the Master Processing Agreement (as amended by the 1st, 2nd, 3rd and 4th Supplemental Processing Agreements) was extended for an additional five years from 31 October 1996 to 31 October 2001; and (ii) the Former PRC Processing Party agreed to transfer all its rights and obligations under the Master Processing Agreement (as amended by the 1st, 2nd, 3rd and 4th Supplemental Processing Agreements) to the PRC Processing Party whilst it became a business agent. Details of this supplemental agreement are set out in the paragraph headed "Processing Agreements" under the section headed "Business" in this document.

In or around the end of 1997 and early 1998, Madam Wong, Mr. Yam and Mr. Wong have reached an agreement verbally that with effect from the financial year commencing on 1 January 1998, each of Fornton Holdings, Fornton Knitting and Nice Regent shall be deemed to be beneficially owned by them in equal shares, and be entitled to voting rights and control of the affairs (including financial and operation aspects) of these companies accordingly.

In view of the demand for larger production capacity, Nice Regent required a larger production premises for the Processing Factory. To this end, on 17 September 1999 the PRC Processing Party procured Dalang Xiangwei, an Independent Third Party, to enter into the Processing Factory Tenancy MOU 1999 with Nice Regent. Pursuant to the Processing Factory Tenancy MOU 1999, the lessor agreed to build a new production plant in accordance with the specifications set out by Nice Regent and, once the new production plant was built, to lease it to Nice Regent as the production premises for the Processing Factory to carry out its knitwear production. Details of the Processing Factory Tenancy MOU 1999 are set out in the paragraph headed "Tenancy agreements" under the section headed "Business" in this document.

Later in 2000, construction of this new production plant was completed. As such, Nice Regent entered into the Processing Factory Tenancy Agreement 2000 with the lessor to lease the newly built production plant which had a total gross floor area of approximately 17,437.36 sq.m. (of which 10,324.63 sq.m. is the area of the production factory) at a monthly rental ranging from approximately RMB136,011 to RMB153,449 for 10 years from 20 December 2000 to 19 December 2010.

On 28 May 2001, Nice Regent and the PRC Processing Party entered into the 6th Supplemental Processing Agreement to extend the term of the Master Processing Agreement (as amended by the 1st, 2nd , 3rd, 4th and 5th Supplemental Processing Agreements) for an additional five years commencing from 31 October 2001 to 31 October 2006.

In 2003, in view of the growing demand for new designs and exchange of ideas with customers, the Group established the design and development department, by which the Group provides comprehensive pre-order services to customers including but not limited to market research on the upcoming fashion trend, designs of new collection of apparel products for each season, and presentation and recommendations to customers based on the latest fashion trend, customers' preferences and market positioning.

In November 2004, to expand the existing production premises of the Processing Factory, Nice Regent entered into a supplemental agreement to the Processing Factory Tenancy Agreement 2000 pursuant to which an additional premises adjacent to the existing premises of the Processing Factory with a total gross floor area of approximately 3,800 sq.m. was leased to Nice Regent at a monthly rental ranging from approximately RMB30,400 to RMB33,440 for six years from 1 January 2005 to 19 December 2010. As such, the aggregate gross floor area of the Processing Factory increased to 21,237.36 sq.m..

In 2005, the Group secured another major customer, which is a well-known apparel brand owner in Switzerland. To cater for the demand for larger production capacity, on 17 November 2005, Fornton Holdings and the lessor of the FC Factory, an Independent Third Party, entered into the FC Factory Tenancy Agreement pursuant to which the lessor agreed to lease production premises to Fornton Holdings for three years from 1 December 2005 to 30 November 2008 at a monthly rental of RMB78,000. Such production premises were located at 東莞常平鎮白石崗村 (Baishigang Village, Changping Town, Dongguan City, Guangdong Province, the PRC*) and comprised a 3-storey factory building, two blocks of dormitory and other ancillary facilities with an aggregate gross floor area of approximately 12,000 sq.m. Details of this agreement are set out in the paragraph headed "Tenancy agreements" under section headed "Business" of this document. Later in February 2006, Fornton

Holdings set up Fung Ching, a WFOE established in the PRC, to mainly handle pre-laundering production procedures including knitting, linking and handstitching and such operation was carried out in the FC Factory. The principal activities of Fung Ching are manufacturing and sale of knitwear.

On 20 September 2006, Nice Regent and the PRC Processing Party entered into the 7th Supplemental Processing Agreement to extend the processing arrangement for an additional two years from 31 October 2006 to 31 October 2008, which was further extended for an additional three years to 31 October 2011 pursuant to the 8th Supplemental Processing Agreement. On 23 June 2011, the Group further extended the processing arrangement to 31 October 2013 pursuant to the 9th Supplemental Processing Agreement and the business licence of the Processing Factory was also extended to 31 October 2013 on 7 July 2011. As advised by the PRC Legal Advisers, there is no substantive legal impediment for the Group and the PRC Processing Party to obtain further approval for the extension of the Processing Agreements and extension of the business licence of the Processing Factory.

On 14 November 2007, Nice Regent entered into another supplemental agreement to the Processing Factory Tenancy Agreement 2000 with the lessor which increased the monthly rental to approximately RMB178,394. The term of the Processing Factory Tenancy Agreement 2000 was extended for two years to 31 December 2012 under the supplemental agreement thereto dated 1 January 2010 at the slightly reduced monthly rental of approximately RMB170,000.

To cater for the increasing scale of the business, on 28 March 2008, Fornton Knitting increased its authorised share capital from HK$10,000 to HK$10,000,000 and its issued share capital from HK$2 to HK$2,000,000.

In December 2008, Fung Ching entered into a supplemental agreement to the FC Tenancy Agreement with the lessor to extend the leasing of the production premises of the FC Factory for an additional two years to 30 November 2010 at the monthly rental of RMB57,600, which was further extended for an additional three years to 30 November 2013 at a monthly rental of RMB69,600 on 26 November 2010.

Knitwear manufacturing is a labour intensive business, which requires a large number of production staff responsible for different production procedures such as linking procedures and handstitching procedures. In July 2010, the Group acquired 20 sets of computerised knitting machine to handle the knitting procedures with a view to increasing the efficiency of the knitting process as well as reducing labour cost and the reliance on labour. To accelerate the computerisation of the knitting procedures, the Group further acquired an additional 120 sets and 9 sets of computerised knitting machines in FC Factory and the Processing Factory respectively which have been in operation since the second quarter and the third quarter of 2011. The Directors believe that the computerised knitting machines can cater for the customers' demand for more complicated and sophisticated knitting pattern for their knitwear products, and thus strengthening the competitive advantage of the Group.

The Group has always focused on knitwear products with a large variety of product mix including cardigans, one-pieces, gloves, jackets, dresses, hats and other apparel knitting products during its 17 years of operation. Throughout the years of operation, the Group has never shifted its focus to other business or apparel products. With such dedication, experience and expertise fostered throughout the years of operation, the Group has established strong and closely-allied relationships with its customers.

CHANGES IN THE SHAREHOLDING AND GROUP STRUCTURE

Fornton Holdings, Fornton Knitting and Nice Regent have been the operating subsidiaries of the Group throughout the Track Record Period. Wide Reach was incorporated in BVI on 29 September 2010 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 31 December 2010, an aggregate of 3,000 shares of US$1 each in Wide Reach were allotted and issued for cash at par, as to 1,000 shares to IAM, 1,000 shares to Ever Rosy and the remaining 1,000 shares to Premier Wise. As the Reorganization did not involve any PRC companies and the controllers are not PRC individuals, the PRC Legal Advisers are of the view that the Reorganization does not require any permits, licenses or approval from any PRC governmental authorities.

Fornton Holdings

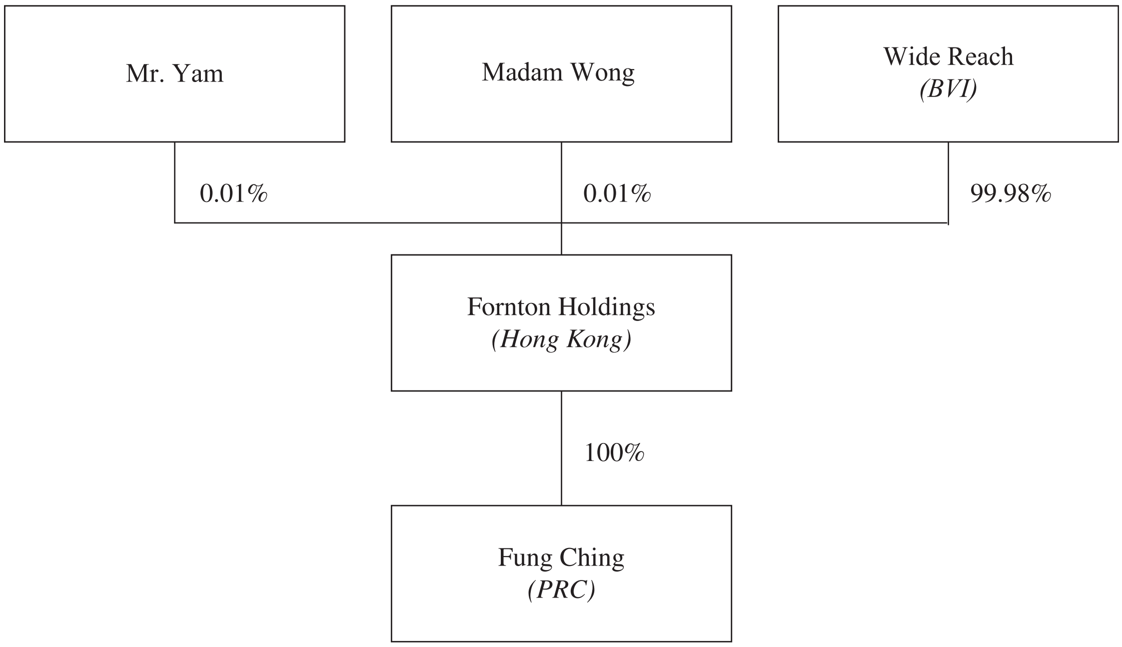
At the time of its incorporation on 16 December 1993, Fornton Holdings had an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each, of which 2 subscriber shares were issued and held by Independent Third Parties. On 20 April 1994, these 2 subscriber shares were transferred as to 1 share to Mr. Yam and the other 1 share to Madam Wong for cash at par as the company has not yet commenced business.

On 31 December 2010, 9,998 shares were issued and allotted for cash at par to Wide Reach. As a result, Fornton Holdings became held by Wide Reach, Mr. Yam and Madam Wong as to 99.98%, 0.01% and 0.01% respectively.

Fung Ching

Fung Ching was established by Fornton Holdings as a WFOE in the PRC on 28 February 2006 with a registered capital of US$1,000,000 and a total investment of US$1,000,000. The operating period of Fung Ching shall be from 28 February 2006 to 28 February 2018. If the operating period expires and Fung Ching cannot obtain the approval for the extension thereof, Fung Ching's operation will be terminated. However, the PRC Legal Advisers are of the view that there is no substantive legal impediment for Fung Ching to obtain such approval. In line with the business development, Fung Ching applied to increase its registered capital to US$2,700,000 and total investment to US$3,300,000 on 10 July 2007, and further applied to increase its registered capital to US$3,586,800 and total investment to US$4,566,800 on 1 September 2010. Fung Ching applied and was approved by relevant government authorities in March 2011 to increase its registered capital to US$8,000,000 and total investment to US$13,380,000. As at the Latest Practicable Date, the registered capital of Fung Ching was US$8,000,000 and was fully paid up.

The following diagram shows the shareholdings and corporate structure of Fornton Holdings and Fung Ching as they existed immediately before the completion of the Reorganisation:



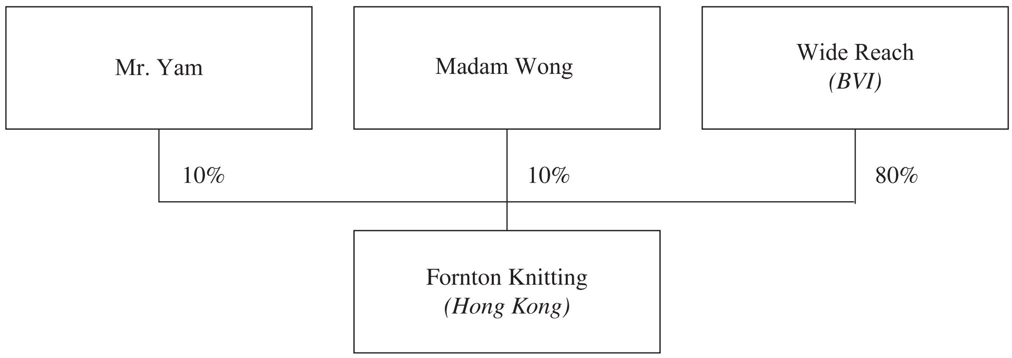
Fornton Knitting

At the time of its incorporation on 1 February 1994, Fornton Knitting had an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each, of which 2 subscriber shares were issued and held by Independent Third Parties. On 20 April 1994, these 2 subscriber shares were transferred as to 1 share to Mr. Yam and the other 1 share to Madam Wong for cash at the par value as the Company has not yet commenced business.

On 28 March 2008, the authorised share capital of Fornton Knitting was increased to HK$10,000,000 divided into 10,000,000 shares of HK$1.00 each, of which 1,999,998 shares in aggregate were allotted and issued, as to 999,999 shares to Mr. Yam and as to the remaining 999,999 shares to Madam Wong.

On 31 December 2010, 8,000,000 shares were issued and allotted for cash at par to Wide Reach. As a result, Fornton Knitting became held by Wide Reach, Mr. Yam and Madam Wong as to 80%, 10% and 10% respectively.

The following diagram shows the shareholdings and corporate structure of Fornton Knitting as it existed immediately before completion of the Reorganisation:



Nice Regent

At the time of its incorporation on 21 February 1995, Nice Regent had an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each, of which 2 subscriber shares were issued and held by Independent Third Parties.

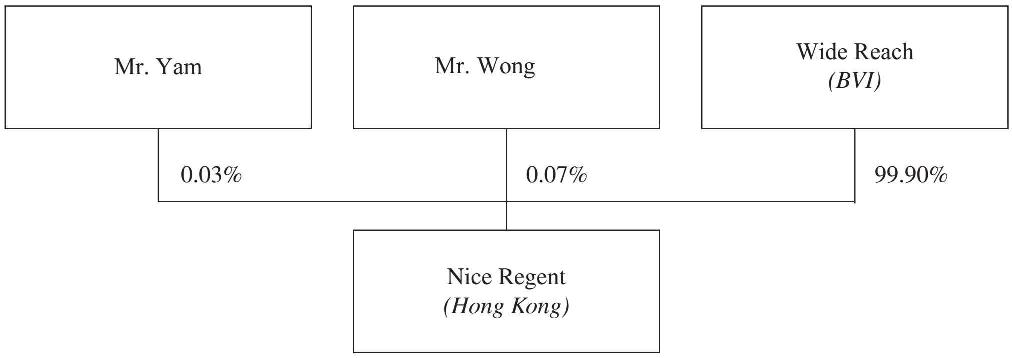
On 7 March 1995, an aggregate of 8 shares were allotted and issued for cash at par, as to 2 shares to Mr. Yam, 2 shares to Mr. Wong, 3 shares to Mr. Siu Kwok Wing and the remaining 1 share to Mr. Chu Ho Chi. Both Mr. Chu Ho Chi and Mr. Siu Kwok Wing were staff of the Group responsible for the management of the Processing Factory. Save as disclosed above, Mr. Chu Ho Chi and Mr. Siu Kwok Wing did not have any past or present relationship with the Group, its shareholders, Directors, members of the senior management and their respective associates and are Independent Third Parties.

On 14 March 1995, the 2 subscriber shares held by Independent Third Parties were transferred, as to 1 share to Mr. Yam and the other 1 share to Mr. Wong for cash at par as the company has not yet commenced business.

After the respective resignations of Mr. Chu Ho Chi and Mr. Siu Kwok Wing in 1997 and 1998, on 20 February 1997, Mr. Chu Ho Chi transferred his 1 share to Mr. Wong for cash at par and on 20 February 1998, Mr. Siu Kwok Wing transferred his 3 shares to Mr. Wong for cash at par. As a result, Nice Regent became held by Mr. Yam and Mr. Wong as to 30% and 70% respectively.

On 31 December 2010, 9,990 shares were issued and allotted for cash at par to Wide Reach. As a result, Nice Regent became held by Wide Reach, Mr. Yam and Mr. Wong as to 99.90%, 0.03% and 0.07% respectively.

The following diagram shows the shareholdings and corporate structure of Nice Regent as it existed immediately before the completion of the Reorganisation:



There is no shareholders agreement between Wide Reach, Mr. Yam, Madam Wong and Mr. Wong respectively relating to Fornton Holdings, Fung Ching, Fornton Knitting and Nice Regent, or between Mr. Yam, Madam Wong and Mr. Wong in relation to Wide Reach. However, Mr. Yam, Mr. Wong and Madam Wong have reached agreement verbally in or around the end of 1997 and early 1998 that with effect from the financial year commencing on 1 January 1998, each of Fornton Holdings, Fornton Knitting and Nice Regent shall be deemed to be beneficially owned by them in equal shares, and they are entitled to voting rights and control of the affairs (including financial and operation aspects) of these companies accordingly. As family members among themselves, Mr. Yam, Mr. Wong and Madam Wong did not consider it necessary to execute a formal agreement at that time to record this arrangement. On the basis that (i) there is no Hong Kong laws and regulations which prohibits the parties from reaching an agreement on the subject matter of the verbal agreement, (ii) the parties are at liberty to contract and they have the requisite legal capacity to enter into the verbal agreement and (iii) the subject matter of the verbal agreement does not require to be evidenced in writing, the Directors, with the consultation of the Company's legal advisers as to Hong Kong Laws, confirmed that the verbal agreement between Mr Yam, Madam Wong and Mr Wong is legal, valid and enforceable under the Hong Kong laws and regulations.

On 2 August 2011, Mr. Yam, Mr. Wong and Madam Wong signed a confirmatory agreement to record the terms agreed aforesaid. Given that the confirmatory agreement was executed to record the parties' intention and arrangement in the past, the Directors, with the consultation of the Company's legal advisers as to Hong Kong Laws, confirmed that the confirmatory agreement is legal, valid and enforceable as between the parties thereto. In view of the above and the fact that Mr. Yam, Mr. Wong and Madam Wong acted in concert to (i) control and manage the financial and operating activities including but not limited to devising the overall strategic development of the business, managing daily operations of the subsidiaries and the production of the Group's production factories in the PRC, making key financial and operating decisions as well as holding senior management positions in the subsidiaries of the Group; and (ii) share the risks and benefits equally of each of the subsidiaries of the Group during the Track Record Period, merger accounting was adopted.

Reorganisation

The companies comprising the Group underwent the Reorganisation [●]. The Reorganisation involved the following steps:

- On [●] 2011, Wide Reach acquired an aggregate of 2 ordinary shares of HK$1.00 each in Fornton Holdings as to 1 ordinary share from Mr. Yam and 1 ordinary share from Madam Wong and in consideration thereof, (i) 1,000 ordinary shares of US$1.00 each in Wide Reach, credited as fully paid, was allotted and issued to IAM at the direction of Mr. Yam and (ii) 1,000 ordinary shares of US$1.00 each in Wide Reach, credited as fully paid, were allotted and issued to Ever Rosy at the direction of Madam Wong.

- On [●] 2011, Wide Reach acquired an aggregate of 2,000,000 ordinary shares of HK$1.00 each in Fornton Knitting as to 1,000,000 ordinary shares from Mr. Yam and 1,000,000 ordinary shares from Madam Wong and in consideration thereof, (i) 1,000 ordinary shares of US$1.00 each in Wide Reach, credited as fully paid, were allotted and issued to IAM at the direction of Mr. Yam and (ii) 1,000 ordinary shares of US$1.00 each in Wide Reach, credited as fully paid, were allotted and issued to Ever Rosy at the direction of Madam Wong.

- On [●] 2011, Wide Reach acquired an aggregate of 10 ordinary shares of HK$1.00 each in Nice Regent as to 3 ordinary shares from Mr. Yam and 7 ordinary shares from Mr. Wong and in consideration thereof, (i) 600 ordinary shares of US$1.00 each in Wide Reach, credited as fully paid, were allotted and issued to IAM at the direction of Mr. Yam and (ii) 1,400 ordinary shares of US$1.00 each in Wide Reach, credited as fully paid, were allotted and issued to Premier Wise at the direction of Mr. Wong.

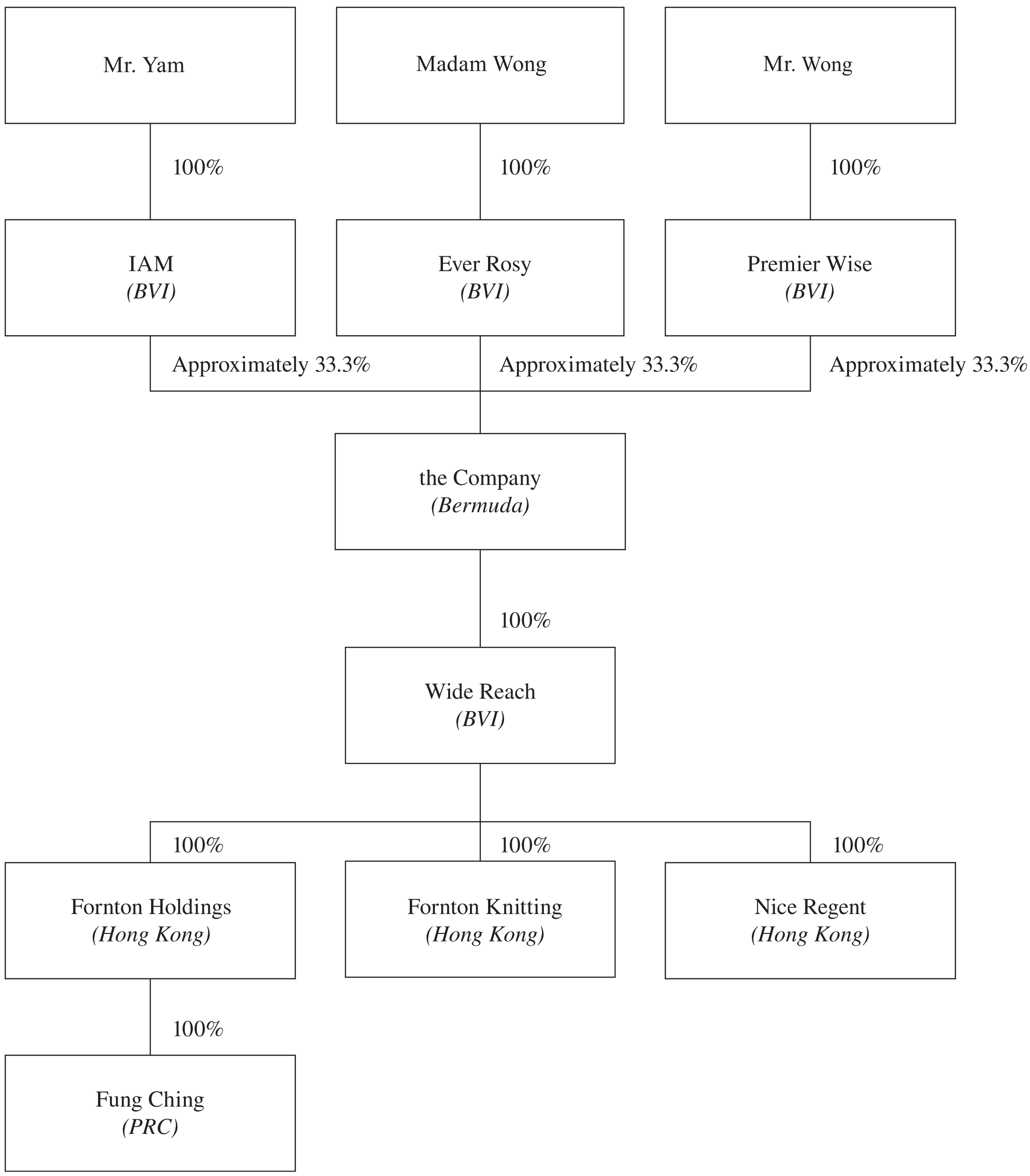
- On [●] 2011, IAM transferred 600 ordinary shares of US1.00 each in Wide Reach to Premier Wise for cash at par.

- On 13 April 2011, the Company was incorporated in Bermuda as an exempted company with limited liability with an authorised share capital of HK$100,000 divided into 10,000,000 Shares of HK$0.01 each, and 1,000 Shares, 1,000 Shares and 1,000 Shares were allotted and issued nil paid to IAM, Ever Rosy and Premier Wise respectively on 15 April 2011.

- On [●] 2011, the authorised share capital of the Company was increased from HK$100,000 divided into 10,000,000 Shares to HK$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,990,000,000 Shares.

- On [●] 2011, pursuant to the agreement for sale and purchase referred to in the paragraph headed "Summary of material contracts" in Appendix V to this document, IAM, Ever Rosy and Premier Wise transferred 3,000 shares, 3,000 shares and 3,000 shares respectively in Wide Reach, being its entire issued share capital, to the Company and in consideration of and in exchange for which, the Company allotted and issued 3,332,333, 3,332,334 and 3,332,333 Shares, credited as fully paid, to IAM, Ever Rosy and Premier Wise respectively and the Company credited as fully paid at par the existing 3,000 nil paid Shares.

The following diagram shows the shareholdings and corporate structure of the Group immediately after the completion of the Reorganisation [●]:



OVERVIEW

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

The major subsidiaries of the Group are Nice Regent, Fornton Holdings, Fornton Knitting and Fung Ching. The first three subsidiaries were incorporated in Hong Kong whilst Fung Ching is a WFOE established in the PRC. The production of the Group was carried out at (i) the Processing Factory under the Processing Agreements since 1996; and (ii) the FC Factory since 2006. The FC Factory mainly carries out the pre-laundering procedures including knitting, linking and handstitching with the support of the Processing Factory for the remaining procedures. The Processing Factory carries out the entire production process, with certain production procedures outsourced to other production factories in the PRC (i.e. subcontractors) on a case by case basis. For each of the three years ended 31 December 2010, the annual production capacity of the Group (including the Processing Factory but excluding the subcontractors engaged by the Processing Factory) was approximately 1.6 million to 1.8 million units of apparel.

Leveraging on the long-term business relationships with the major customers and its reputation for quality, the Group's turnover increased by approximately 17.0% for the year ended 31 December 2010 as compared with the year ended 31 December 2009. For each of three years ended 31 December 2011, the Group's turnover amounted to approximately HK$316.6 million, HK$304.5 million and HK$356.1 million respectively, representing a CAGR of approximately 6.06%, and the total comprehensive income for the year amounted to approximately HK$27.1 million, HK$22.2 million and HK$27.7 million respectively, representing a CAGR of 1.0%. Despite the relatively low CAGR of the comprehensive income due to the cumbrance from the financial crisis triggered at the end of 2008, the Group was back on the growing track in 2010, gaining an annual growth rate of approximately 24.6% for its comprehensive income for the year ended 31 December 2010. For the four months ended 30 April 2011, the Group's turnover and comprehensive expenses amounted to approximately HK$49.2 million and HK$3.8 million respectively, representing a decrease of 14.3% and an increase of approximately 21.6% respectively as compared to the corresponding period in previous year. The decrease in turnover for the four months ended 30 April 2011 was primarily due to industry convention for knitwear products as first half of the year is a conventional slack season for knitwear products and more orders for winter collection are normally placed in second quarter of the year. The increase in comprehensive expense for the same period was mainly attributable to decrease in turnover as aforesaid and the increase in administrative expenses arising from recruitment of more staff for facilitating the expansion plan to be carried out by the Group.

The fees paid by the Group pursuant to the Processing Agreements and the Processing Factory Tenancy Agreement 2000 for rental of the production premises for the Processing Factory, direct and indirect labour cost, utility cost and staff cost amounted to approximately HK$27.7 million, HK$27.0 million, HK$31.2 million and HK$9.9 million, respectively for the Track Record Period. It is expected that the new production factory with annual production capacity of approximately 4,188,000 pieces of apparel to be constructed on the Land at Yangwu Village, Dongguan City, Guangdong Province, the PRC acquired by the Group will commence operation by the fourth quarter of 2012 so as to substitute the existing production premises of the FC Factory and expand the production scale of the Group to two complete production lines comprising the existing one in the Processing Factory and another in the new production factory. The Group intends to continue with the processing arrangement with the PRC Processing Party for production to be carried out in the Processing Factory provided that there is no significant change in the regulatory and economic environment. The Group will operate the new production factory on its own without adopting new processing arrangement with any other PRC parties.

COMPETITIVE STRENGTHS

The Group believes that it has several business strengths that set it apart from its competitors and enable it to continue to grow and enhance its profitability. The competitive strengths of the Group include:

Established relationships with premium apparel brand owners

The Group has secured several major international apparel brand owners which possess recognised designer labels including but not limited to Strellson, Jones New York, and Anne Klein. The relationships between the Group and most of the key customers have sustained for more than 10 years, during which the Group provides a product mix of knitwear products with different knitting patterns, styles, materials, accessories and colour tones in accordance with the preferences and standards as specified by the customers and/or designs recommended or inspired by the Group. The Directors believe that one of the factors for the success of the Group is attributable to its ability to secure and maintain long-term relationships with these well-recognised international apparel brand owners.

As at the Latest Practicable Date, the Group has sustained business relationships with its top five customers for a period ranging from 6 to over 10 years. Such loyal relationships were established by the Group's comprehensive pre-order services including but not limited to (i) development services to design, and showcase new sample collections for customers each season; (ii) market research on global fashion trend and preparation of trend books; (iii) presentations of new fashion trends and ideas; and (iv) brainstorming the ideas of design for the customers and its stable delivery of good quality products, which secures the commitment of the customers for future orders.

The Directors consider that another major strength of the Group to secure such long established relationships is its efficient communications with the customers and its advice to the customers on the designs of the products, the use of yarn and other accessories according to the latest fashion trend and the specific target customers in the market. The sales and merchandising department of the Group is responsible for coordinating the communications between the customers and the production team in the PRC. The merchandisers of the Group communicate with the overseas customers in respect of their requests for upcoming fashion trends through emails, telephone and/or regular visits to the customers' representative offices in Hong Kong or their overseas headquarters. Such regular communications allow the Group to better understand the needs and requirements of its customers. Leveraging on the strong relationships between the Group and its customers, the Directors believe that the Group can obtain stable orders for its knitwear products from its customers and maintain its scale of production during both market upturns and downturns.

Comprehensive quality assurance checks for products and recognition from customers

As the major customers of the Group are recognised international apparel brand owners with strict and comprehensive quality assurance review for their products, the Group has put strong emphasis on its product quality and reliability. To ensure the quality of the products produced by the Group is in accordance with the customers' standards, the Company performs in-line quality assurance check for almost all the WIPs produced along the production lines. As at the Latest Practicable Date, there were 237 employees responsible for the in-line quality assurance checks and final inspections of the products along the production lines. The staff responsible for quality assurance check carries out stringent quality control procedures along the production lines after each major production procedure such as knitting, linking, handstitching, laundering, label sewing and final checking.

For example, after the linking process, all the linked garments are inspected by the quality assurance staff in terms of the quality of stitches. In the event that defects of the WIPs are found after a particular production procedure, the quality assurance staff would send those defective WIPs back to the production department of previous production stage for rectification. Some customers also assign their own staff to perform specific quality check for the products manufactured under their labels in the Processing Factory. One of the major customers even assign their own staff to station in the Processing Factory to do the final inspection of their own products. To ensure stable quality of the Group's products, the quality assurance checks carried out by the staff cover almost all the WIPs produced in each major production process. The Directors believe that the quality assurance check with almost full coverage can maintain stable quality of the Group's products, which in turn enhances the loyalty of the customers.

To recognise the Group's emphasis and effort in quality assurance of the products, one of its customers, namely Jones Apparel Group USA Inc., has presented the Most Valuable Partner Award to the Group commending the reliability and quality of the Group's products. In view of such close collaboration between the major customers and the Group and the positive feedback from the customers in respect of the reliable performance of the Group throughout the entire period of cooperation, the Directors believe that the Group's commitment to high and stable quality of the products constitutes a competitive edge over other apparel manufacturers.

Most of the recognised international apparel customers carry out a comprehensive quality assurance review before they take delivery of the finished products. One of the major customers requires the Group to enter into a compliance agreement which sets out, among others, (i) specific requirements and standards for the production of the goods, components, trim, materials and packaging such as the facilities for the production of goods as approved by the customers and (ii) the code of conduct of the Group. For example, the Group agreed not to distribute any products which have failed the quality assurance review, and will completely destroy any goods that are wearable with minimal flaws which have the customers' trademark or name screened, including tagless labels, embroidered, printed, engraved or otherwise incorporated directly onto the goods, as well as any goods that have failed the applicable safety testing. Some of the customers pay regular on-site quality check for the products produced under their brand names.

Strong and established product design and development capability

Since 2003, the Group has established a design and development department. It is mainly responsible for devising design and development plans for all customers each season in accordance with the upcoming fashion trend in the international apparel market and the culture and preferences of each major customer. The design and development department collects the latest information of the fashion market and brainstorms with customers various new design ideas in terms of yarn, accessories, cutting, knitting pattern, silhouette and colour tones design. To facilitate customers in devising production plan for the upcoming seasons, the design and development department would present the latest market information to and assess the fashion trend for the customers, and discuss with the customers on the design of upcoming collections. After such brainstorming meeting, the customers' designers would develop their own collections based on the information and inspirations provided by the Group. Each year, the Group develops two collections of knitwear product samples with a minimum of 80 new style designs and a minimum of 100 technique swatches in each collection for customers' consideration. The Directors believe that the design and development capability together with efficient communication and exchange of ideas between the Group and the major customers can facilitate the production plans of the customers, which in turn enhances the loyalty of the customers to the Group.

Strong relationships with suppliers and subcontractors

As the market demand for knitwear products fluctuates rapidly with economic situation, there are large differences in market demand between the peak seasons and low seasons. As such, the Group has to secure a steady supply of raw materials and other accessories for its production and, through the Processing Factory, outsource some of its production procedures to other production factories with a view to maintaining reliable production of products with stable quality during the peak seasons. Over the years of collaboration with the suppliers and subcontractors, both the Group and the Processing Factory have established a strong and close business relationships with their suppliers of yarn and accessories and the subcontractors. As at the Latest Practicable Date, both the Group and the Processing Factory have established relationships with some of the suppliers and subcontractors for more than 10 years without entering into long-term contracts. This arrangement is in line with the industry practice, and shows the mutual trust between the Group, the Processing Factory, the suppliers and the subcontractors. Save as disclosed in the section headed "Litigation" in Appendix V to this document, during the Track Record Period, there was no material disagreement between the Group and each of the Processing Factory, suppliers and subcontractors arising from the defects or other quality issues of the raw materials from the suppliers, the WIPs or finished goods produced by the subcontractors. For the three years ended 31 December 2010 and four months ended 30 April 2011, the Group purchased raw materials from 274, 277, 292 and 147 suppliers located all over the world. As at the Latest Practicable Date, the

Group's business relationships with its top five suppliers ranged from 3 to 10 years. For the three years ended 31 December 2010 and four months ended 30 April 2011, the Processing Factory had approximately 168, 149, 173 and 85 subcontractors in the PRC respectively.

Expertise in apparel manufacturing

The growth and success of the Group's business is attributable to its experienced and dedicated management team with extensive knowledge in the apparel manufacturing industry. The management team is led by Madam Wong and Mr. Wong, who have approximately 27 and 15 years of management and operating experience in the textile industry respectively. Some of the major customers and suppliers were old business acquaintances with Madam Wong before the commencement of the Group's business. The Directors believe that the experienced management and design teams enable the Group to adapt to the rapidly-changing market environment in a timely manner and to capture the market opportunities swiftly and accurately.

Computerisation of the knitting process

To ensure efficient and effective production of knitwear products in high and stable quality, as at the Latest Practicable Date, the Group has installed 149 sets of computerised knitting machines in the FC Factory to handle the initial production process, i.e. knitting. With such computerised knitting machines, the Group is capable of producing complicated knitting pattern of swatches so as to cater for the appetite and the demand of the medium-to-high-end customers located in highly competitive apparel markets in the world. The Directors believe that computerisation of the knitting process can help reduce the bottle-necked pressure imposed on the Group in respect of potential labour shortage, reduce the production costs and its reliance on the subcontractors. To further promote the computerisation of the knitting process of the production of the Group and keep pace with the overall market trend from labour intensive knitting to computerised knitting, the Group intends to install an additional 100 sets of computerised knitting machines in the third quarter of 2012 to replace all manually-operated knitting machines.

Focus on premium yarn with higher margins and development of new blending of yarn

The Group has positioned itself as a knitwear manufacturer for key international apparel brand owners with their products sold around the world under their well-known designer labels. In light of the standard of quality as required by key customers in the highly competitive apparel markets in the world, the Group selects to use premium yarn, which is patented, for the production of knitwear products. The Group is knowledgeable in handling different kinds of premium yarn and is capable of applying them to different kinds of knitwear products. The Directors believe that the use of premium yarn not only achieves the standards set out by the customers, but also one of the factors contributing to the higher margins for the Group, thereby benefiting the financial results of the Group.

To fulfill the growing appetite for products with newly developed yarn or knitting pattern, the Group initiates the innovation of different blending of yarn for a wide variety of knitwear products. The design and development department also cooperates with the purchasing department and the yarn suppliers to research on and develop new blending of yarn so as to bring novelty to the product designs. The Directors believe that the effort put on research will facilitate the Group in keeping abreast of the mindsets of the customers, enabling the Group to provide better customers service.

Strong growth prospects through multiple channels

The Group not only cooperates with international apparel brand owners based in USA and the European countries such as Germany and Switzerland, but also enters the onshore market by cooperating with the distributors and exporters located in Hong Kong. Such multiple channels for sales and distribution of the knitwear products of the Group provide extensive reach of the Group's products to both offshore and onshore markets. This business model reduces the impact on the Group's performance during possible adverse change of the global economic market. Moreover, the Group plans to further extend its root to the PRC apparel market by attracting potential customers including but not limited to the local brand owners in the PRC or those international apparel groups which labels are recognised but under penetrated in the PRC's apparel market with a view to enhancing sales and benefiting from the rapid growth of the PRC's economy. The Directors believe that the multiple channels can offer strong and optimistic growth prospects to the Group.

BUSINESS STRATEGIES

In view of the rapidly growing PRC economy and the emergence of fashion awareness of the middle-class in the PRC, the Group intends to extend its customer base to the PRC apparel brand owners and other European markets such as Portugal and Italy and enhance its position as an ODM knitwear manufacturer in the knitwear industry. To achieve these goals, the Group will adopt the following strategies:

To enhance the sales and merchandising department

To facilitate the expansion plan to be carried out by the Group to attract more international apparel groups which intend to increase market share into the PRC, the Group has been recruiting experienced staff for the sales and merchandising department with a view to leveraging on their experience and established network in the apparel industry to strengthen the sales and merchandising team, and to improve the services to, and communications with, the customers.

To enhance the design capability of knitwear products

To further strengthen its established design and development department and strengthen its design and development services provided to the customers, the Group has been recruiting experienced designers to increase the number of sample collections designed by the Group per year. Currently, the Group designs and produces two knitwear sample collections per year for the customers' consideration and design inspirations. The Group has also established a showroom on a larger scale in its headquarter for showcasing more samples, collections of the knitwear products and swatches of different knitting patterns designed and developed by the Group for promotion and marketing purpose. The Group would also enhance the capability of the design and development team through participating in fashion exhibitions twice a year and acquiring computer software for design and development, details of which are set out in the section headed "Future plans" in this document.

To enhance the development capability of yarn

To bring novelty to the knitwear products and increase the competitive edge of the Group's products, the Group intends to enhance the development capability of the design and development department by encouraging direct development and design of new blending of yarn for the knitwear products. The Directors believe that the more special the blending of yarn or knitting pattern is, the more capable the Group to satisfy the changing appetite of the customers.

To increase the market sense and enhance a better understanding of the customers' appetite, the Group assigns its staff from sales and merchandising department and design and development department to participate in more events relating to the updating of market information and latest fashion trends such as international fashion shows and trade shows.

To enhance the production capacities

To handle complicated or sophisticated pattern or style of knitwear products, the Group has ordered an additional 120 sets of computerised knitting machines to handle the knitting procedure of the production process and these 120 sets of computerised knitting machines were installed in the second quarter of 2011. As at the Latest Practicable Date, there were 9 sets and 140 sets of computerised knitting machines in the Processing Factory and FC Factory respectively. The Group also intends to acquire an additional 100 sets of computerised knitting machines in the third quarter of 2012. It is expected that additional computerised knitting machines will increase the production capacity of the Group and reduce reliance on labour. As the computerised machines can produce more complicated or sophisticated patterns and styles of knitwear products, the design and development department may have more flexibility to explore other design possibilities whilst the sales and merchandising department will be in a better strategic position to attract more prime international brand owners which put stronger emphasis on design and specification of their knitwear products.

To fully implement ERP System for better management control and to enhance corporate governance

With the expansion and development of the Group's production base, in order to streamline the Group's internal control, to allow full integration of the Group's various production facilities and to improve the information technology management for better operation management, the Group has collaborated with a software development company in April 2011 for the design and development of an ERP System that is tailor-made for the Group. It is expected that service agreement will be entered into between the Company and the system vendor in November 2011 and the development is expected to commence in December 2012. The ERP System could enable the Group's management to exercise more rigorous and efficient control over the Group's operation and lay a solid foundation to ensure the maintenance of the Group's economic efficiency.

CUSTOMERS

Since the commencement of its manufacturing business, the Group has been able to secure international fashion groups with wide variety of products marketed under numerous well-recognised labels and sold in their franchised or chain stores located all over the world. As at the Latest Practicable Date, the labels of the apparel manufactured by the Group included but not limited to Jones New York which are under top five customers and other labels such as Strellson and Anne Klein. Jones Group and another international apparel group are the two most substantial customers contributing to the Group's business throughout the Track Record Period in terms of the revenue generated from their sales and their long-term business relationships with the Group.

Location of the customers

The Group's customers are mainly international apparel groups headquartered in USA and the European countries such as Germany and Switzerland whilst their products are sold in their respective chain stores or franchised stores under their labels, department stores or other specialty retailers around the world.

Set out below is the Group's turnovers by headquarter's locations of the customers during the Track Record Period:

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

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

During the Track Record Period, approximately 98.1%, 99.2%, 99.5%, and 99.3% of the turnover of the Group were denominated U.S. dollars, and approximately 1.9%, 0.8%, 0.5%, and 0.7% of the turnover of the Group were denominated in HK dollars.

Top five customers

The top five customers in terms of the revenue generated for the Group during the Track Record Period have international well-known labels and have maintained long-term business relationships with the Group for more than 5 years and 10 years respectively. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, the aggregate revenue generated from the top five customers of the Group amounted to approximately 88.4%, 89.9%, 89.4% and 93.9% of the Group's total revenue respectively and the Group's largest customer accounted for approximately 52.6%, 55.4%, 56.3% and 70.0%, respectively, of the Group's total revenue for the three years ended 31 December 2010.

As the Group's customers only enter into short-term purchase orders instead of long-term sales contracts with the Group, there is no assurance that the relationship between the Group and any customers will continue on the same or similar terms, and the customers may terminate their respective relationships with the Group at any time as they wish in the future. Accordingly, the volume of the customers' purchase orders and the product mix may vary significantly from period to period, and it is difficult to forecast the number of future orders. As a result, the Group's business, results of operations and financial condition may vary from period to period depending on the volume of purchase orders from customers, whether existing or new.

Notwithstanding that the Group has maintained long-term relationships with its customers, to reduce reliance on the key customers and to avoid significant impact on the Group's performance if the major customers reduce their order amounts, the Group has strived for extending its business reach to the PRC market and attracting more potential customers such as the international apparel groups which labels are recognised but under-penetrated in the PRC. The Group has been in frequent communication in respect of the style, design, type, quality and pricing of the potential sales orders with the potential customers such as the PRC local high-end branded products retailers and international brands retailers which intend to establish sales channels in the PRC market. Some of the potential customers have exchanged specific requirements with the Group and have considered the designs recommended by the Group. As at the Latest Practicable Date, the Group has secured sales orders in an aggregate amount not less than HK$20 million from customers in the PRC.

Set out below are the years of relationships between the top five customers and the Group and the respective percentages of turnover generated from the top five customers during the Track Record Period:

Top five customers of the Group for the year ended 31 December 2008

Name of customers	**Years of relationship as at the Latest Practicable Date**	**Approximate percentage of turnover**
Customer A	over 10	52.6%
Customer B	over 10	14.4%
Customer C	over 5	12.5%
Customer D	over 10	4.9%
Customer E	over 10	4.0%

Top five customers of the Group for the year ended 31 December 2009

Name of customers	Years of relationship as at the Latest Practicable Date	Approximate percentage of turnover
Customer A	over 10	55.4%
Customer B	over 10	13.9%
Customer C	over 5	10.9%
Customer D	over 10	4.9%
Customer E	over 10	4.8%

Top five customers of the Group for the year ended 31 December 2010

Name of customers	Years of relationship as at the Latest Practicable Date	Approximate percentage of turnover
Customer A	over 10	56.3%
Customer B	over 10	17.4%
Customer C	over 5	8.6%
Customer E	over 10	4.9%
Customer F	over 10	2.2%

Top five customers of the Group for the four months ended 30 April 2011

Name of customers	Years of relationship as at the Latest Practicable Date	Approximate percentage of turnover
Customer A	over 10	70.0%
Customer C	over 5	9.4%
Customer E	over 10	5.2%
Customer B	over 10	4.8%
Customer F	over 10	4.5%

Note: Customers A, D, E and F are under the same ultimate holding company but decisions for placing orders with the Group are made by different and independent management located in different countries.

Customer A, D, E and F are under the same ultimate holding company, which is a global specialty retailer company established in the USA, the products of which are sold in three channels: full price retail stores, online, and outlet. The product types include sophisticated, fashionable collections of casual and tailored apparel, shoes, accessories, and personal care products for men and women. The major sales regions of Customer A are USA, Canada, Europe and Asia. The major sales region of Customer D, E and F are in North America, Canada and Japan respectively.

Customer B is a leading designer, marketer and wholesaler of branded apparel, footwear and accessories. Customer B markets directly to consumers through its chain of specialty retail and value-based stores and through its e-commerce web sites. Its operations are comprised of five revenue-generating segments: wholesale better apparel, wholesale jeanswear, wholesale footwear and accessories, retail and licensing. The product types include apparel, footwear, jeanswear, jewelry and handbags. Its sales regions are located worldwide but mainly in the USA.

Customer C is a member company of a group which is one of the world market leaders in the premium fashion and luxury segment of the apparel market. The brand portfolio, which covers an extensive product range consisting of classic-modern business wear, elegant evening and relaxed casual fashion, shoes and leather accessories, as well as licensed fragrances, eyewear, watches, children's fashion and motor-cycle helmets. Its sales regions are located worldwide but mainly in Europe.

Apart from the direct sales of products to the international brand owners, the Group also sells its products to trading companies in Hong Kong which are mainly engaged in sourcing quality apparel products or accessories in the PRC for the relatively small-scale overseas apparel companies. The orders placed by such companies through the trading companies are relatively small as compared with that by the direct customers of the Group. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, revenue generated by such trading companies represented approximately 0.9%, 1.8%, 1.1% and Nil of the Group's total revenue respectively.

PRODUCTS

The Group's knitwear products can be divided into three categories namely womenswear, menswear and kidswear and the Group's revenue during the Track Record Period was mainly derived from the sales of womenswear, representing approximately 89.4%, 91.8%, 91.6% and 89.5% respectively of the Group's turnover for the Track Record Period. Set out below are the Group's turnovers by product categories during the Track Record Period:

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

For the Track Record Period, the sales volume of the Group amounted to approximately 2.4 million, 2.9 million, 3.0 million units and 0.5 million units of finished apparel goods. Set out below are the total sales quantities of womenswear, menswear and kidswear during the Track Record Period:

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

To maintain the Group's turnover throughout the financial crisis triggered at the end of 2008, the Group adjusted the selling price of the products in 2009 and thus the selling price decreased by approximately 21.6% for the year ended 31 December 2009. Rallying on the recovery of the global economy in 2010, the average selling price of the products increased by approximately 12.4% for the year ended 31 Decemeber 2010. For the four months ended 30 April 2011, the average selling price of the products was HK$109, representing a slight increase of 3.8% as compared to corresponding period of previous year. Set out below are the average selling prices for womenswear, menswear and kidswear during the Track Record Period:

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

Notes:

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

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

Womenswear

The Group manufactures a product mix of quality womenswear including knitted tops, coat, one piece, knitted vest and skirts of different styles, cutting, knitting patterns, themes, materials and colour combinations in accordance with the specifications and requirements as set out by the customers and/or designs recommended by the Group. Most of the womenswear products manufactured by the Group are made of yarn with high percentage of wool for winter seasons and cotton for summer season. Set out below are some of the womenswear products manufactured by the Group:

Knitted tops

Coat

One piece

Knitted vest

Skirts

Menswear

To satisfy the different appetite and theme preferences of different customers, the Group manufactures a wide range of quality menswear including knitted cardigans, knitted top and coat of different styles, cutting, knitting patterns, themes, materials and colour combinations in accordance with the specifications and requirements as set out by the customers. Most of the menswear products manufactured by the Group are made of yarn with high percentage of wool for winter season and cotton for summer season. Set out below are some of the menswear products manufactured by the Group:

Knitted cardigans

Knitted top

Coat

Kidswear

The Group has mainly focused on the production of menswear and womenswear products since the commencement of its business. In 2008 and 2009, the Group also produced kidswear products for its customer. The kidswear products manufactured by the Group include knitted tops, knitted vest, jacket, coat, poncho and one piece of different themes, colour combination and styles as specified by the customers. Set out below are some of the kidswear products manufactured by the Group:

Knitted tops

Knitted vest

Jacket

Coat

Poncho

One piece

The following table sets out the respective average sale units and selling price of each category of knitwear products produced by the Group during the Track Record Period:

	Year ended 31 December 2008	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	2,208	128
Menswear	156	209
Kidswear	6	138
Total/average	2,370	134

	Year ended 31 December 2009	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	2,756	101
Menswear	123	192
Kidswear	9	147
Total/average	2,888	105

	Year ended 31 December 2010	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	2,853	114
Menswear	167	178
Kidswear	—	—
Total/average	3,020	118

	Four months ended 30 April 2010	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	546	105
Menswear	1	107
Kidswear	—	—
Total/average	547	105

	Four months ended 30 April 2011	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	426	103
Menswear	27	191
Kidswear	—	—
Total/average	453	109

PRODUCTION

The Group has carried out its production in the production facilities in the PRC at (i) the FC Factory since 2006; and (ii) the Processing Factory under the Processing Agreements since 1996. The FC Factory mainly carries out the pre-laundering procedures with the support of the Processing Factory for the remaining procedures. The Processing Factory carries out the entire production process of the Group with some production procedures being outsourced to the subcontractors in the PRC on a case by case basis so as to achieve the production optimisation of the Group and satisfy the growing demand of the Group's products from the customers. It is expected that the new production factory with annual production capacity of approximately 4,188,000 pieces of apparel to be constructed on the Land located in Yangwu Village, Dongguan City, Guangdong Province, the PRC acquired by the Group will be in operation by the fourth quarter of 2012 so as to substitute the existing production premises of the FC Factory and expand the production scale of the Group to two complete production lines comprising the existing one in the Processing Factory and another in the new production factory. The Group intends to continue with the processing arrangement with the PRC Processing Party for production carried out in the Processing Factory provided that there is no significant change in the regulatory and economic environment. The Group will operate the new production factory on its own without adopting new processing arrangement with any other PRC parties.

The FC Factory would cease operation when the new production factory is ready and all machines and equipment currently used therein are expected to be relocated to the new production factory.

Set out below are the number of permanent full-time staff (including but not limited to the production staff) based in the Group's headquarter in Hong Kong, the FC Factory and the Processing Factory as at the end of each of the three financial years ended 31 December 2010 and the Latest Practicable Date:

Number of permanent full-time staff employed by	As at 31 December 2008	2009	2010	As at the Latest Practicable Date
The Group				
Headquarter in Hong Kong	39	33	40	37
The FC Factory	487	357	235	257
The Processing Factory	992	903	902	946
Total	1,518	1,293	1,177	1,240

The decrease in permanent full-time staff based in the FC Factory in 2009 and 2010 was mainly due to acute shortage of skillful labour in Guangdong Province in 2008 and 2009. As such, more labour intensive production procedures such as knitting and handstitching were outsourced to the subcontractors. After 31 December 2010 and up to 30 April 2011, the number of full-time staff has once decreased due to more difficulty to recruit production staff in Guangdong Province and the Group's computerisation of the knitting procedures since 2010 resulting from the acquisition of 20 sets of computerised knitting machines. After the Track Record Period, the number of full-time staff employed by the FC Factory increased significantly and exceed the level as at 31 December 2010 as more staff was employed for managing additional 120 sets computerized knitting machines newly acquired by the Group in second quarter of 2011.

Set out below are the details of the production facilities of the Group in the PRC:

The FC Factory

The FC Factory has been leased by the Group from an Independent Third Party since December 2005 under the FC Tenancy Agreements. It is located in Changping Town, Dongguan City, Guangdong Province, the PRC and comprises one 3-storey factory building for production, two blocks of 4-storey dormitory and other ancillary facilities with a gross floor area of approximately 12,000 sq.m. Before this, the Group has been carrying out its production only through the Processing Factory pursuant to the Processing Agreements. In 2005, in view of the demand for larger production capacity, the Group leased the FC Factory from an Independent Third Party for an initial term of three years at a monthly rental of RMB78,000. On 1 December 2008, the Group extended the term of leasing of the FC Factory for an additional two years and in November 2010, the term of leasing was extended for a further three years until 30 November 2013. The FC Factory mainly carries out pre-laundering procedures of the production, namely knitting, panel and weight, trims matching, linking and handstitching under 進料加工安排 (import processing arrangement), details of which are set out in the paragraph headed "Processing Arrangements" in this section.

As at the Latest Practicable Date, there were 140 sets of computerised knitting machines and 402 other manually controlled machines including but not limited to linking machines and handstitching in the FC Factory. The annual production volume and production capacity of the FC Factory are set out in the paragraph headed "Production capacity" in this section.

The Processing Factory

After entering into the 3rd Supplemental Processing Agreement, the Former PRC Processing Party provided production premises as required under the 3rd Supplemental Processing Agreement by procuring the leasing of the production premises of gross floor area of approximately 3,140 sq.m. to Nice Regent by 東莞市大朗鎮巷尾管理區 (Dongguan Dalang Xiangwei Administrative District*) (now known as 東莞市大朗鎮巷尾社區居民委員會 (Dongguan Dalang Xiangwei Residents Committee*)), an Independent Third Party, pursuant to the Processing Factory Tenancy Agreement 1996. In 1999, the PRC Processing Party procured Dalang Xiangwei, an Independent Third Party, to enter into the Processing Factory Tenancy MOU 1999 with Nice Regent pursuant to which the lessor agreed to build a new production plant in accordance with the specifications set out by Nice Regent, and once the new production plant was built, it would lease it to Nice Regent as the production premises for the Processing Factory to carry out its knitwear production. In 2000, the lessor completed the construction of the new production factory and entered into the Processing Factory Tenancy Agreement 2000 with Nice Regent to confirm the lease of the newly completed production plant and ancillary buildings with gross floor area of 17,437.36 sq.m. (of which 10,324.63 sq.m. is the area of the factory building) to Nice Regent for 10 years from 20 December 2000 to 19 December 2010. In 2004, Nice Regent entered into another supplemental agreement with the same lessor pursuant to which the lessor agreed to lease additional production factory adjacent to its existing facilities with total gross floor area of approximately 3,800 sq.m. In 2007, Nice Regent entered into another supplemental agreement to further extend the lease of the production plant of an aggregate floor area of 21,237 sq.m. for additional 3 years from 20 December 2007 to 19 December 2010. In January 2010, the Processing Factory Tenancy Agreement 2000 was further extended for an additional three years to 31 December 2012. Details of the said tenancy agreements relating to the leasing of the production premises of the Processing Factory are set out in the paragraph headed "Tenancy agreements" in this section.

As at the Latest Practicable Date, the production plant of the Processing Factory comprised a 4-storey factory building, a 4-storey dormitory, another 6-storey dormitory, a 3-storey staff quarters and other ancillary facilities. It carries out the full range of the production procedures for the Group's production including knitting, linking, handstitching, trims matching, laundering, fabrics cutting, sewing, ironing, labelling and quality assurance checks.

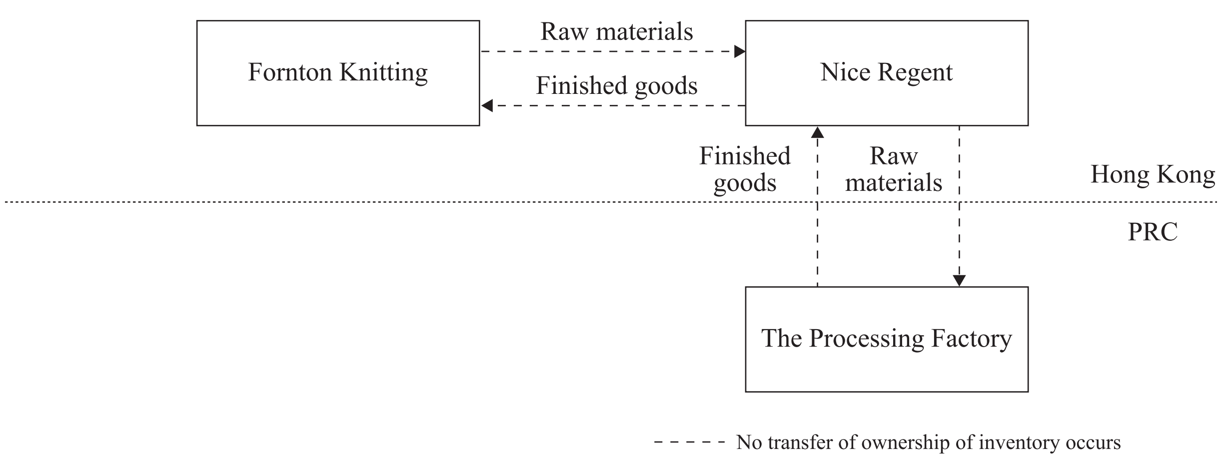
Under the Processing Agreements, Nice Regent is responsible for, among others, the supplies of all the raw materials and trims, and all the machineries required for the production of knitwear products carried out in the Processing Factory whilst the PRC Processing Party is responsible for the production of the knitwear products in return for the Processing Fees which should include the rental of the Processing Factory, the labour cost and the utility cost. Since the PRC Processing Party has arranged for a lease of the premises for the Processing Factory directly between Nice Regent and the lessor, such part of the Processing Fees comprising rental is paid by Nice Regent directly to the lessor. The source of suppliers of raw materials and WIPs from Nice Regent to the Processing Factory is from Fornton Knitting for which Fornton Knitting passes the raw materials and WIPs to Nice Regent for production processing at a subcontracting fee paid to Nice Regent by Fornton Knitting. To handle the increasing orders during the peak seasons, the Processing Factory outsources the knitting procedure to the FC Factory and other production procedures to other production factories in the PRC.

As at the Latest Practicable Date, there were 495 production machines including but not limited to linking machines, handstitching, sewing machines, etc in the Processing Factory. The annual production volume and production capacity of the Processing Factory are set out in the paragraph headed "Production capacity" in this section.

Processing arrangements

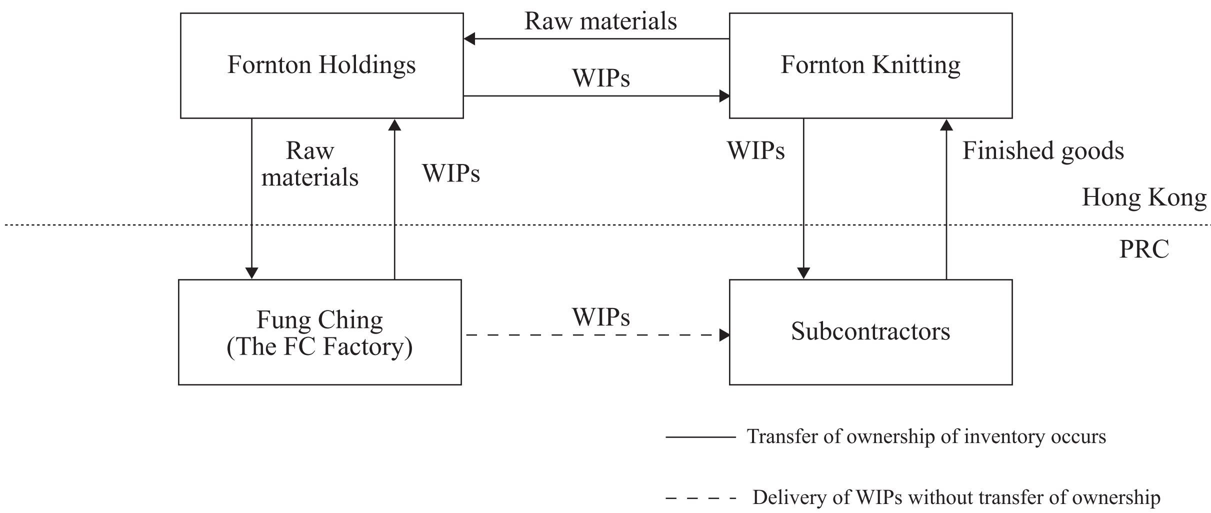
來料加工安排 *(the contract processing arrangement*) adopted by Nice Regent*

The Group carries out its knitwear production at the Processing Factory under the contract processing arrangement, pursuant to which the Processing Factory receives the raw materials imported from Hong Kong by Nice Regent with VAT exemptions and produces the finished goods at its production premises with some production procedures outsourced to the subcontractors in the PRC at specified subcontracting fees as determined by reference to the seasonable demand, complexity of the products, ultimate selling prices, costs of raw materials and other labour and utility costs. After production, the Processing Factory then exports the finished goods to Nice Regent under the contract processing arrangement at the Processing Fees as determined by reference to rental income of the production premises, number of employees involved in the production and the utility costs incurred during the production. Subcontracting fees paid to the subcontractors for the processing services provided to the Processing Factory for the production of the Group's products would also be borne by Nice Regent. There is no transfer of ownership of the inventory under the contract processing arrangement. Details of the contract processing arrangement pursuant to the Processing Agreements are set out in the paragraph headed "Processing Agreements" in this section and a diagram detailing 來料加工安排 (the contract processing arrangement*) adopted by Nice Regent is set out below:



進料加工安排 *(the import processing arrangement*) adopted by Fornton Holdings*

Fung Ching is a WFOE set up in the PRC and is not encouraged to carry out production in the PRC by the contract processing arrangement. As such, it carries out the pre-laundering procedures of the production under the import processing arrangement by which Fung Ching purchases and imports raw materials from Fornton Knitting via Fornton Holdings and then Fung Ching sells back the WIPs to Fornton Knitting via Fornton Holdings after processing, Fornton Knitting then sells the WIPs to the subcontractors in the PRC for further processing to finished goods. To expedite the production process, Fornton Knitting would sometimes instruct Fung Ching to directly deliver the WIPs to the subcontractors, and after the processing, the subcontractors would sell and export the finished goods to Fornton Knitting. Set out below is the diagram illustrating the aforesaid processing and logistic arrangement of the production:



The following table sets out the major differences between 來料加工安排 (the contract processing arrangement*) and 進料加工安排 (the import processing arrangement*):

	來料加工安排 (the contract processing arrangement*) adopted by Nice Regent	**進料加工安排 (the import processing arrangement*) adopted by Fornton Holdings**
General	The foreign party provides the raw materials to the processing factory in the PRC, which manufactures the finished goods for the foreign party and once finished production, exports the finished goods to the foreign party.	The foreign party sells the raw materials to the production enterprise in the PRC and buys back the WIPs or finished goods (as the case may be) from the production enterprise in the PRC.
Agreement	The foreign party enters into a processing agreement which sets out the rights and responsibilities of the foreign party and the processing factory in the PRC.	Sale and purchase agreement is entered into between the foreign party and the production enterprise in the PRC.
Processing fees	Processing fee is payable by the foreign party to the processing factory in the PRC pursuant to the processing agreement.	The foreign party sells the raw materials to the production factories in the PRC and buys back the WIPs and finished goods therefrom. As such, no processing fees are involved.
Role of foreign party	The foreign party provides raw materials, machinery, technical support and managerial know-how to the processing factory in the PRC without consideration.	The foreign party is simply a seller of raw materials to the production enterprise in the PRC and a purchaser of the WIPs or finished goods therefrom.
Role of the processing factory/production enterprise in the PRC	The processing factory in the PRC in turn provides factory premises, utilities and labour force and carries out the processing or assembling work in accordance with the requirements of the processing agreement and under the supervision of the foreign party.	The production enterprise is a separate legal person and in the current case is a type of foreign investment enterprise established in the PRC (FIE) and it purchases raw materials from the foreign party and sells the WIPs or finished goods back to the foreign party.
Transfer of ownership of raw materials, WIPs and finished goods	No transfer of ownership of raw materials and finished goods is involved. The title remains with the foreign party despite the physical delivery thereof.	There is transfer of ownership and title to and from the production enterprise in the PRC before and after the manufacturing process respectively.

	來料加工安排 (the contract processing arrangement*) adopted by Nice Regent	**進料加工安排 (the import processing arrangement*) adopted by Fornton Holdings**
Hong Kong taxation	The foreign party is allowed to claim for the apportionment of manufacturing and trading profits on a 50:50 basis.	The foreign party is not allowed to claim for the apportionment of trading profits on a 50:50 basis.
Customs duty	The imported materials are exempt from customs duty, provided that the outputs are exported.	The imported materials are exempt from customs duty, provided that the outputs are exported.
VAT	(i) Subcontracting income of the processing factory in the PRC is not subject to VAT; and	(i) Export sales of the production enterprise in the PRC is not subject to VAT; and
	(ii) VAT paid in the PRC is not creditable.	(ii) VAT paid in the PRC is creditable against domestic sales (if any). If there is no domestic sales, it can be refundable.
EIT	Processing factories's subcontracting income is usually subject to EIT on deemed basis.	WFOE's taxable profit is subject to EIT on actual basis.

The Group has adopted 來料加工安排 (the contract processing arrangement*) by its subsidiary, Nice Regent, to handle the orders since the commencement of its business. To expand the production scale of the Group, the Group has set up Fung Ching to handle the pre-laundering production to adopt 進料加工安排 (the import processing arrangement*) as Fung Ching is set up in the form of a WFOE in the PRC. As such, the Group's production is carried out by the Processing Factory and the FC Factory under 來料加工安排 (the contract processing arrangement*) and 進料加工安排 (the import processing arrangement*) respectively.

Fornton Knitting is an administrative hub which is responsible for sourcing potential customers and suppliers on behalf of the Group, communicating and negotiating with the existing customers and suppliers, and centralising and handling the orders by delegating to either (i) Fornton Holdings to handle the manufacturing of the products through 進料加工安排 (the import processing arrangement*); or (ii) to Nice Regent to handle the manufacturing of the products under 來料加工安排 (the contract processing arrangement*). Nice Regent was set up in 1995 and entered into the Processing Agreements to adopt the 來料加工安排 (the contract processing arrangements*) since the Directors consider that it is not advisable for Fornton Knitting, being the major administrative hub accommodating the functions of securing and managing the customers' orders and monitoring the overall production and logistic arrangement of the products, to bear all legal, financial and operational risks relating to 來料加工安排 (the contract processing arrangement*). Similarly, 來料加工安排 and 進料加工安排 are two different processing arrangements subject to different sets of regulatory requirements. As such, the Directors consider that it is more advisable to set up a separate legal entity, i.e. Fornton Holdings, to adopt 進料加工安排 instead of adopting such processing arrangement by either the command center of the Group (i.e. Fornton Knitting) or the subsidiary adopting different processing arrangement (i.e. Nice Regent). It is an usual business strategy for businesses to set up different group companies as a separate legal entity to perform diversified functions. In view of the different regulatory requirements for the processing arrangements as mentioned above, the Directors believe that it would be more efficient and convenient to delegate the production to different subsidiaries adopting different processing arrangements.

Fung Ching is a WFOE established in the PRC and its raw materials used are imported under 進料加工安排 (the import processing arrangement*), under which the WIPs manufactured by Fung Ching are exported but not transferred directly to the subcontractors for further processing such that the customs duty in respect thereof can be exempted. The considerations for these transactions were determined with reference to the amount of the raw materials, WIPs or finished goods (as the case may be), the complexity of the specifications of raw materials, WIPs and finished goods and the number of working hours and production staff necessary for the production.

Under the import processing arrangement, there is a margin of the internal sales charged by Fung Ching to Fornton Knitting through Fornton Holdings whilst Fornton Holdings has not charged any margins to Fung Ching or Fornton Knitting. Such margin, as determined by reference to the market prices comparable to similiar transactions after arm's length negotiation, is in substance equivalent to the subcontracting fees charged by the subcontractors to the Processing Factory for the processing of WIPs. In view of the above, the Directors and the [●] are of the view that such internal sales were conducted on normal commercial terms in all material respects.

Commercial rationale for the said arrangements

The Group commenced its business in 1990s, at which time the government in Guangdong Province encouraged foreign enterprises to establish their production arms in Guangdong Province by promulgating favourable policies such as VAT exemption for materials imported under 來料加工安排 (the contract processing arrangement*). As such, the Group commenced its knitwear manufacturing business in the PRC under 來料加工安排 (the contract processing arrangement*) via Nice Regent with a view to establishing its production arm in the PRC whilst setting up its administration and marketing functions in Hong Kong. In 2006, the Group set up Fung Ching as its WFOE in the PRC having considered (i) the need for the Group to expand its production scale in the PRC; and (ii) favourable government policies for the establishment of WFOEs. As Fung Ching is a WFOE which is not encouraged (and positioned) to import its raw materials under 來料加工安排 (the contract processing arrangement*), it carries out pre-laundering procedures at the FC Factory under 進料加工安排 (the import processing arrangement*) instead with the support of the Processing Factory for the remaining procedures.

In view of the above, the Group adopts both 來料加工安排 (the contract processing arrangement*) and 進料加工安排 (the import processing arrangement*) along with the changes in legal environment in the PRC and its need for business development throughout these years.

Compliance with applicable rules and regulations

Based on the confirmation letters issued by each of 東莞市國家稅務局常平稅務分局 (Changping branch of the Dongguan Municipal State Tax Bureau*) and 東莞市地方稅務局常平稅務分局 (Changping branch of the Dongguan Municipal Local Tax Bureau*) on 25 February 2011, the PRC Legal Advisers and Tax Consultant are of the view that the Group has not been subject to any material tax disputes. As advised by the PRC Legal Advisers, the transactions mentioned above and the logistic arrangement relating thereto comply with the applicable laws and regulations in the PRC in all material respects.

Compliance with transfer pricing regulations

The Group has engaged the Tax Consultant to conduct transfer pricing study in respect of the Group's transactions. As advised by the Tax Consultant, the Group complies with the relevant transfer pricing regulations in Hong Kong and the PRC in all material aspects. The Tax Consultant and the PRC legal advisers to the [●] obtained verbal confirmation from the chief of the division in-charge of Fung Ching's income tax that (i) Fung Ching complies with the requirements under the relevant PRC transfer pricing regulations; and (ii) the tax division has no further query on Fung Ching from the transfer pricing perspectives after the formal review of the transfer pricing documentation. Based on the results of the study and the financial information of the Group, the Tax Consultant is of the view that the transactions relating to the Group's manufacturing were conducted on normal commercial terms in all material respects after performing the following due diligence work and substantive tests:

In respect of Fung Ching, the Tax Consultant has performed the following:

(i) reviewed the mode of operations and functions taken up

(ii) reviewed the financial results, tax filing records and correspondences with tax authorities

(iii) recomputed and reconciled the necessary tax provisions

(iv) checked the prevailing transfer pricing rules and reviewed Fung Ching's tax filing compliance

(v) reviewed the disclosures and basis adopted in contemporaneous transfer pricing documentation report prepared by 廣東中誠安泰會計師事務所有限公司 and submitted to in-charge tax authority

(vi) verified the data presented in the aforementioned documentation report to competent database

(vii) reviewed the confirmation issued by the Large Enterprises and International Tax Division of Dongguan Municipal State Tax Bureau that evaluated the aforementioned documentation report

(viii) reviewed sample calculations of costs charged by Fung Ching to Fornton Holdings during the Track Record Period and compared with that charged by third parties that performed similar types of activities

(ix) visited and obtained confirmation from the in-charge tax authority on 25 February 2011 that Fung Ching was entitled to exemption of income tax in years 2008 and 2009 and half reduction of income tax in years 2010 to 2012

(x) visited and obtained confirmation from the in-charge tax authorities on 25 February 2011 that Fung Ching did not commit any tax evasion, tax avoidance and violate tax law

In respect of Fornton Knitting, Fornton Holdings and Nice Regent, the Tax Consultant has performed the following:

(i) reviewed the mode of operations and functions taken up

(ii) reviewed the financial results, tax filing records and correspondences with the IRD

(iii) recomputed and reconciled the necessary tax provisions

(iv) checked the prevailing transfer pricing rules in Hong Kong and reviewed the companies' tax filing compliance

(v) reviewed the companies' tax records and no material tax losses are noted

(vi) reviewed the companies' tax records and noted that the companies rendered all of their profits for Hong Kong profits tax during the Track Record Period as appropriate

Title defects of the FC Factory

Pursuant to《劃撥土地使用權管理暫行辦法》(Provisional Rules on Administration of Allocated Land Use Rights*), the lessor of the FC Factory, being Baishigang Village Committee, shall not transfer, lease or mortgage the land occupied by the FC Factory to any parties without (i) the approval of the relevant government authorities for the land use rights assignment; (ii) conducting land use rights assignment procedure; and (iii) payment of land use right assignment fee. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Baishigang Village Committee has not conducted, and will not conduct, the land use right assignment procedure for the leased land occupied by the FC Factory because they will only do so if they need these certificates to obtain loans from banks and currently they do not have such intention. As such, according to Article 46 of《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(Interim Regulations of the PRC Concerning the Assignment and Transfer of the Right to the Use of the State-owned Urban Areas*), the relevant government authorities are entitled to confiscate the illegal rental income and impose a fine on the lessor according to the severity of the breaches. In addition, Baishigang Village Committee has not obtained the building ownership certificate and thus it shall not lease the buildings occupied by the FC Factory to any parties. It was common for the collective organizations such as Baishigang Village Committee not to obtain the relevant certificates unless they need these certificates to obtain loans from the banks, as government authorities usually will not challenge their ownership.

In respect of the unauthorized leasing of the FC Factory by the lessor as detailed above, the PRC Legal Advisers advised that (i) Baishigang Village Committee, instead of Fung Ching, should bear all the legal consequences resulting therefrom; (ii) there is a risk that the FC Tenancy Agreements may be deemed as void; (iii) the leasing of the FC Factory may be suspended if any third parties file an opposition thereto; and (iv) the Group may not claim from the lessors all related losses but is entitled to claim against the lessor for reduction or exemption of rental if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property. To mitigate any adverse effect on the Group of such unauthorized leasing, the Group has devised several measures, details of which are set out in the paragraph headed "Mitigation measures" in this section. As at the Latest Practicable Date, Fung Ching has not received any removal notice from the lessor or any relevant PRC authority.

Title defects relating to the Processing Factory

The lessor of the Processing Factory has not obtained the relevant state-owned land use rights certificates and the building ownership certificates in respect of the production premises of the Processing Factory, and thus it is not allowed to lease such production premises. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the lessor will only do so if they need these certificates to obtain loans from the banks and currently they have no such intention. In respect of the above, the PRC Legal Advisers advised that (i) the lessor of the premises for the Processing Factory, instead of Nice Regent, should bear all the legal consequences resulting therefrom; (ii) there is a risk that the Processing Factory Tenancy Agreement 2000 may be deemed as void; (iii) the leasing of such production premises to Nice Regent may be suspended in the event any third parties file an opposition thereto; and (iv) Nice Regent may not claim from the lessors all related losses but is entitled to claim for reduction or exemption of rental if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property.

As the Group's production is mainly carried out at the FC Factory and the Processing Factory, both production factories are crucial to the Company. To mitigate any adverse effect on the Group of such unauthorised leasing, the Group has devised several mitigation measures, details of which are set out in the paragraph headed "Mitigation measures" in this section. As at the Latest Practicable Date, Nice Regent has not received any removal notice from the lessor or any relevant PRC authority.

New production plant

In December 2010, the Group acquired a piece of industrial land with site area of approximately 30,400.5 sq.m. located at Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC from the Vendor, an Independent Third Party, at a total cost (including commission and other expenses) of approximately HK$13.9 million. The maximum gross floor area that can be developed for the Land is about 54,720.9 sq.m. The fair value of the Land as at 31 July 2011, as appraised by the Valuer, amounted to HK$14,400,000, details of which is disclosed in Appendix III of this document.

According to the Group's preliminary development plan, the Group intends to establish a new production factory on the Land with an annual production capacity of approximately 4,188,000 pieces of knitwear products with a view to substituting the existing production premises of the FC Factory and expanding the production scale of the Group to two complete production lines of which one is currently set up in the Processing Factory and another will be set up in the new production factory. All the machinery and equipment currently used at the FC Factory, including the additional 120 computerised machines installed in the second quarter of 2011, will be relocated to the new production factory. As the production scale will be expanded by the establishment of the new production factory, the amount of subcontracting work of the Group is expected to decrease.

The Group will apply to the relevant government authorities for all applicable licenses and permits for the new production plant. The application process will commence in the fourth quarter of 2011 and the construction is expected to commence in the fourth quarter of 2011 and will finish by the fourth quarter of 2012. Total capital committed (including the consideration of the land and relevant cost and expenses) for the new production plant as at the Latest Practicable Date was approximately HK$13.9 million for the acquisition of the Land. The estimated total investments for the new production plant (excluding the acquisition cost of production machinery and office equipment for the new production plant) are RMB48,650,000 and the sources of funding will be [●] and the working capital of the Group.

The new production factory would be solely operated by the Group. Upon commencement of the operation of the new production factory, the Group would continue to adopt 來料加工安排 (the contract processing arrangement*) with the PRC Processing Party for the production carried out in the Processing Factory provided that there is no significant change in the regulatory and economic environment. As advised by Tax Consultant, there will not be any significant tax implication arising from the commencement of operation of the new production factory and the business and operation model of the Group will remain the same (i.e. production will be carried out by production factory operated by Fung Ching under 進料加工安排 (the import processing arrangement*) and the Processing Factory under 來料加工安排 (the contract processing arrangement*) with some production procedures being outsourced to the subcontractors) after the commencement of operation of the new production factory. The Directors are also of the view that there will not be any significant financial impact as a result of the establishment of the new production factory except for the following:

(i) the new production factory will have a complete production line instead of carrying out the pre-laundering procedures only and thus the Group's production overheads and labour cost will increase but it will be offset by the estimated decrease in subcontracting cost; and

(ii) the tenancy agreement for the FC Factory will be terminated and thus Fung Ching will not be subject to rental charge but instead there will be depreciation for land and plant for the Group.

It is expected that the new production factory will commence operation by the fourth quarter of 2012.

Mitigation measures

The Processing Factory and FC Factory have been in operation on the premises mentioned above for over 15 years and 5 years respectively and have never received any removal orders from the lessor and any relevant PRC authorities during the operation. Accordingly, the Directors consider that the possibility of receiving removal orders from relevant authorities is low and the [●] legal advisers as to the PRC laws concur with such view. The Directors do not expect any loss in revenue arising from the aforesaid as the Group can subcontract the production to its subcontractors within a short notice period.

However, to prepare for the possible disruption of production in the Processing Factory and the FC Factory due to the risks mentioned in the paragraph headed "The FC Factory" and "The Processing Factory" above, the Group has devised mitigation measures as follows:

(i) The Group has entered into the legally binding Letters of Intent (Yu Xing) with Yu Xing, an Independent Third Party, pursuant to which the Group may lease from Yu Xing the Spare Factory (Yu Xing) of a gross floor area of approximately 9,700.5 sq.m. at Qingxi Town, Dongguan City, Guangdong Province, the PRC and the production facilities therein so as to continue its production in the Spare Factory (Yu Xing) in the event that a removal order is imposed on either the FC Factory or the Processing Factory. The monthly rental of the Spare Factory (Yu Xing) and its production facilities shall not be more than RMB8.4 per sq.m. Pursuant to the terms of the Letters of Intent (Yu Xing), an aggregate earnest money of approximately RMB162,968 shall be paid by the Group of which an aggregate RMB81,484 was paid five days after the signing of the Letters of Intent (Yu Xing) and the balance is payable within five days after the earlier of (i) the date of signing the formal tenancy agreement or (ii) 31 December 2012, and if Yu Xing decides to lease the Spare Factory (Yu Xing) to parties other than the Group, Yu Xing has to give 2-month notice to the Group in writing. The total annual capacity of the Spare Factory (Yu Xing) is over 3,800,000 pieces of apparel, which is adequate for the Group's current and expected production needs. It is expected that it will only take several days to relocate the production of either the FC Factory or the Processing Factory to the Spare Factory (Yu Xing). The Directors consider that the Group will not incur any significant relocation cost;

(ii) The Group has also entered into the legally binding Letters of Intent (He He) with He He, an Independent Third Party, pursuant to which the Group may lease from He He the Spare Factory (He He) with a gross floor area of approximately 13,753.1 sq.m. at Qingxi Town, Dongguan City, Guangdong Province, the PRC and the production facilities therein. The monthly rental of the Spare Factory (He He) and its production facilities shall not be more than RMB8.0 per sq.m. Pursuant to the terms of the Letters of Intent (He He), an aggregate earnest money of approximately RMB220,050 shall be paid by the Group, of which approximately RMB110,025 was paid five days after the signing of the Letters of Intent (He He) and the balance is payable within five days after the earlier of (i) the date of signing the formal tenancy agreement or (ii) 31 December 2012, and if He He decides to lease the Spare Factory (He He) to parties other than the Group, He He is obliged to give 2-month notice to the Group in writing. The total annual capacity of the Spare Factory (He He) is over 1,200,000 pieces of apparel which, together with production capacity of the Spare Factory (Yu Xing), are more than adequate for the Group's current and expected production needs. It is expected that it will only take several days to relocate production to the Spare Factory (He He). The Directors consider that the Group will not incur any significant relocation cost; and

(iii) The Processing Factory may also outsource the production to other production factories in the PRC. The Processing Factory had over 100 subcontractors during the Track Record Period. Given the long term relationship between the Processing Factory and its subcontractors, the Directors do not foresee any difficulties in outsourcing the production of the Processing Factory to the subcontractors.

In view of the mitigation measures as set out above and the fact that it is expected that the Group's new production facilities on the Land will come into operation by the fourth quarter of 2012, the Directors believe that the possible disruption of production due to relocation of the FC Factory and/or the production facilities of the Processing Factory will not have any material impact on the operation of the Group. Nevertheless, the Controlling Shareholders have undertaken to indemnify the Group for all costs and losses incurred by the Group as a result of the aforesaid defects in respect of the leasing of the production premises of the FC Factory and Processing Factory.

Headquarter in Hong Kong

During the Track Record Period, the Group maintained the administration, finance, design and development, sales and merchandising and other core functions of the business in its headquarter previously located at 1st Floor, Po Shau Centre, No. 115 How Ming Street, Kwun Tong, Kowloon, Hong Kong which was leased from an Independent Third Party at a monthly rental ranging from HK$63,020 to HK$112,872. As the tenancy for previous office space ended on 31 December 2010, the Group entered into a new Headquarter Tenancy Agreement in December 2010 with a view to expanding its office for, among other things, establishing showcase rooms for its sample collection. In December, the Group moved its headquarter to Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong with a gross floor area of approximately 8,887 sq.ft. which is leased at a monthly rental of HK$150,000 for a term of three years under the Headquarter Tenancy Agreement. The headquarter serves as the principal contact point to the customers and an information hub to gauge the fashion trends and changing consumer preferences. As the lessor, Long Rise, is a company held in equal shares by Madam Wong and her father, the transaction contemplated under the Headquarter Tenancy Agreement constitutes a continuing connected transaction for the Company under [●], details of which are set out in the section headed "Continuing Connected Transaction" in this document.

Operation of the Group

The operation of the Group can be divided into two major stages, namely the development stage and the production stage. Set out below are the major procedures to be carried out in these two stages:

Development stage

Prior to the confirmation of the orders placed by the customers, different functions of the Group such as the design and development department, the sales and merchandising department, the sample department together with the yarn department and trims/accessories department take up important roles to perform numerous development procedures for the Group's production.

Set out below is the flow chart summarising the workflow at the development stage. The design and development department conducts and hold regular meetings, market research on the latest fashion trends and recent development of new fabrics with the key customers to keep pace with the changes in consumer preferences in view of their market positioning. Each year, the Group will design two collections of knitwear products based on the upcoming fashion trends with a view to brainstorming new ideas to the designers of the customers through the presentations and meetings with the major customers in Hong Kong and overseas from time to time. The customers who collected the inspirations from the Group would then ask the Group to prepare the prototype (1st round sampling) of the products and/or provide additional designs of a particular pattern/style to form a collection. The Group may further modify the prototype according to the specifications and requirements in respect of color tone, embellishment, use of yarn, cutting, knitting pattern and etc as set out by the customers. Once the customers are satisfied with the prototypes, the Group would be asked to produce a more advanced sample, which is the salesman sample. The Group would confirm all the production details including but not limited to the production schedule, the products' specifications and the price quotations if the customer shows their intent to place an order after the receipt of the salesman sample. A finalised purchase order will be issued to the customer once all the production details and terms are confirmed.

Market research

↓

Regular meetings with the customers for exchange of new ideas in respect of the market trends

↓

Presentations of the sample collection in Hong Kong or overseas

↓

Request for prototype from the customers and/or additional style design of a particular pattern/style to form a collection

↓

Presentation to the customers of the prototypes (1st sample)

↓

Customer's suggestion for alteration

↓

Production of salesman sample (2nd round samples)

↓

Customer's review on the 2nd samples

↓

Preliminary order placement

↓

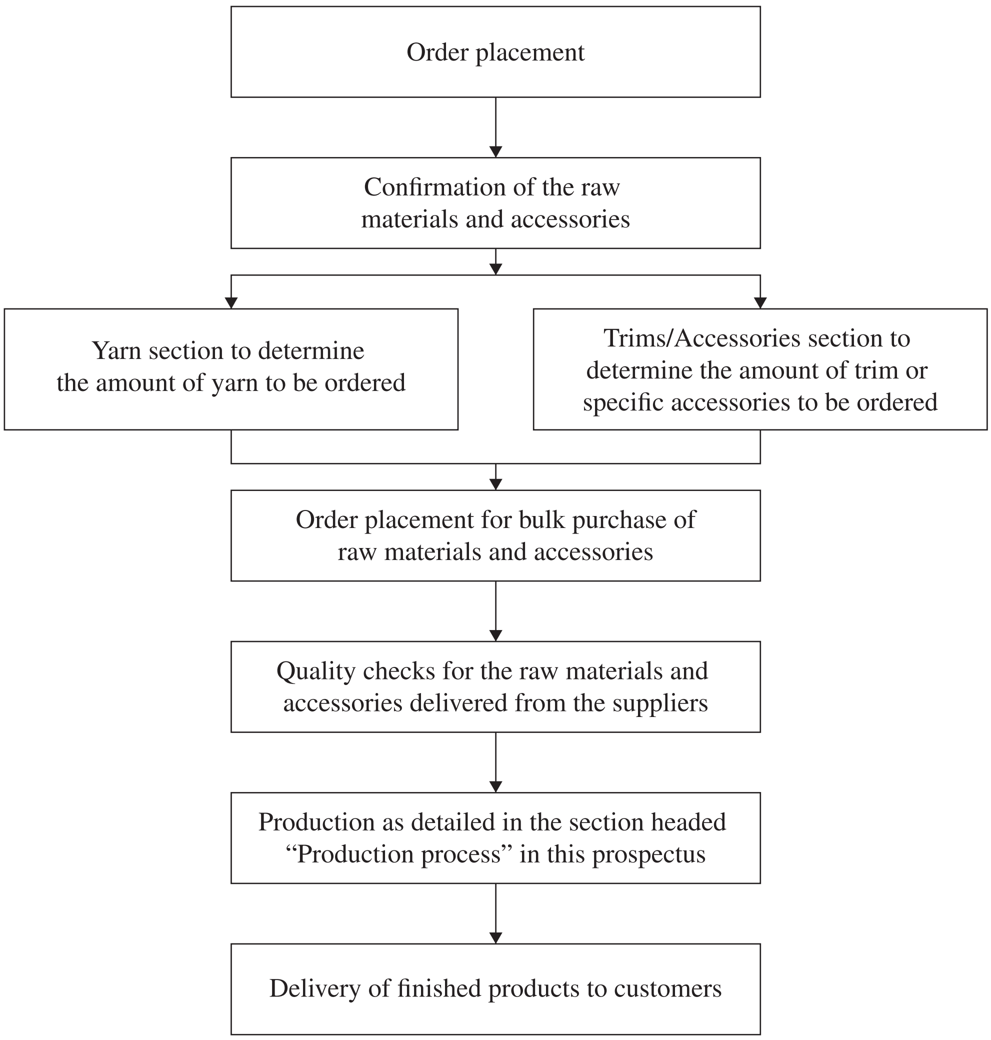
Confirmation of production details and price quotations

↓

Confirmation of final order

Production stage

Set out below is the workflow of the production stage before the production starts:

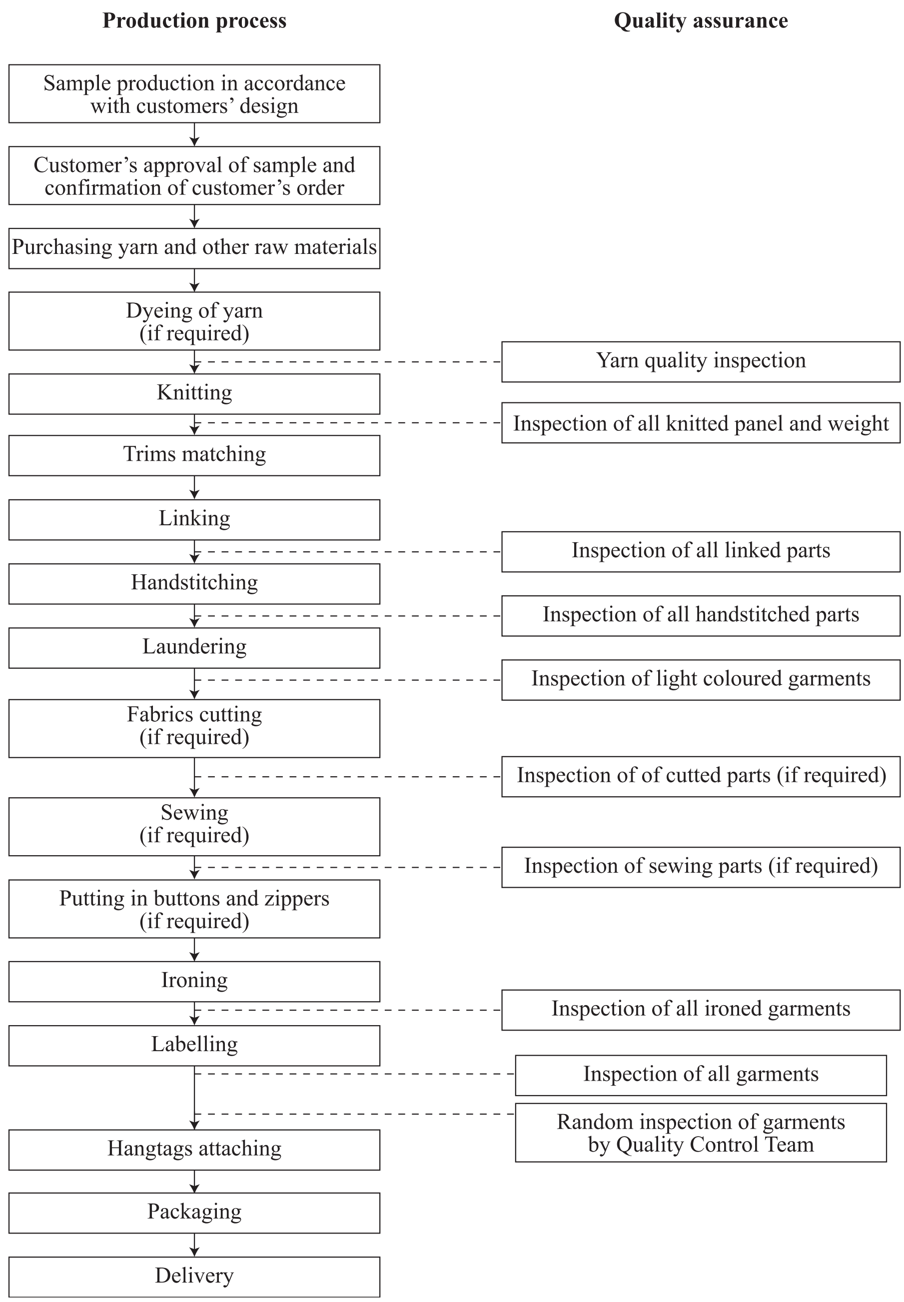


A customer must first confirm its order in respect of quantity, price, specifications and requirement and the delivery date of the knitwear products. The sales and merchandising department will then circulate the details of such confirmed order to all the relevant departments for devising their production plan in accordance with their specific responsibilities. For example, the yarn section, trims/accessories section and sales and merchandising department are responsible for purchasing the amount of yarn and accessories necessary for the production, and making orders to the relevant suppliers for the required yarn and accessories taking into account the quantity required, the blending of the yarn, the delivery time and cost incurred for the sourcing of such production materials. If specific colour of yarn is required for the products, the yarn section of the purchasing department will follow up the dyeing of the yarn, estimate the time required for dyeing and check the quality of the dyed yarn. Normally, the production cycle takes two months to complete.

Production process

The diagram below illustrates principal procedures involved in the Group's production process.

Principal procedures of production process



The principal procedures of the production include knitting, linking, handstitching, trims matching, laundering, fabrics cutting, sewing, button and zippers, ironing, labelling, hangtags attaching, packing and all corresponding quality assurance inspections after each major production procedure.

Knitting

Before the installation of the newly purchased 120 sets of computerized knitting machineries in the second quarter of 2011, the knitting teams in the Processing Factory and the FC Factory worked on approximately 526 sets manually-operated knitting machines once specified amount of yarn was received. After the installation of 120 sets of computerized knitting machines in the FC Factory, the knitting procedures are carried out by smaller number of more skilful labour. Swatches (織片) in different knitting pattern and colour would be produced by yarn with different composition, such as wool, cotton and cashmere, mainly through computerized knitting machines. The gradual computerisation of knitting procedures enables the Group to enhance efficiency and reduce the reliance on labour.

Inspection for all knitted panel and weight

To avoid obvious loss or wastage of yarn used for the production, staff responsible for weight matching would weigh every bulk of swatches to check whether there is material difference between the weight of panel and that of the yarn used for the production. Material difference between two implies loss or wastage incurred during the production of knitting which would drive the Group to revise the existing procedures or remedy for such loss and wastage. After weight matching, the quality assurance staff would inspect the quality of panel in terms of its tension and the number of stitches of the swatches as required by the customers.

Trims matching

Knitwear product normally comprises major knitted garments, accessories and other trims such as collars, cuff rims and pockets. Once the knitted garments are inspected by the responsible staff, the trims matching department would match the required trims for each piece of knitwear product. For example, if the final product is a cardigan, the trims matching department would collect the required rims, pockets and collars to match with the cardigan in accordance with the specification and requirements of the customers. All the required trims would be transferred to the linking department for linking up together as a knitwear product.

Linking and inspection for linked parts

Once the front, back, sleeves and all trims are available and prepared by the knitting department and trims matching department, and the quality assurance check are performed, the production staff would carry out the linking procedures to link all these knitted parts together. The linked garment would then be inspected by the quality assurance staff before proceeding to the next production procedure, i.e. handstitching.

Handstitching and inspection for all handstitched parts

After linking all the major parts and trims of the garments together and passing the inspection of the linked garments, the experienced and skilful handstitching staff would stitch the tiny and delicate joints between two trims by hand. This is one of the critical manual production procedures that cannot be done by the computerised machines. As such, the production staff responsible for handstitching is important to the knitwear production. All the handstitched garments would be transferred to the quality assurance department for quality inspection in terms of delicacy of each stitch before proceeding to the next production procedure, i.e. laundering.

Laundering (washing and shrinking) and inspection of laundered garments

To assure the cleanliness, neatness and softness of the stitched garments, the responsible staff washes the stitched garments with detergent of specified chemical composition, guaranteeing the degree of softness of the garments as required by the customers. After the laundering of the garments, all the washed garments are inspected by the quality assurance staff in respect of cleanliness, neatness, softness and, most importantly, the degree of shrinkage.

Fabric cutting and sewing (if required)

If the design of the knitwear products involves fabrics cutting and sewing, the washed garments are sent to fabrics cutting and sewing department. All fabrics will be cut to customers specification and checked by quality assurance department and sent to sewing department. The sewing department will assemble the fabrics into the garment which will be checked by quality department for quality inspection.

Buttons and zippers sewing (if required)

If the design of the knitwear product involves buttons or zippers, the washed garments are sent to the sewing section for buttons and zippers sewing. All the accessories such as buttons and zippers are sourced and checked by the accessories department and are made ready for this sewing procedure as required. Some of the customers designate the suppliers of buttons and zippers so as to ensure the quality of such accessories.

Ironing and measurement inspection

All the washed garments passing the quality assurance check or those with buttons or zippers sewn are transferred to the ironing department for ironing. Ironing helps restoring the original size of the garments so as to ensure that the size of the washed garments meets the standard after the laundering process.

Labelling and inspection for all finished garments

After measurement inspection, labels designated by customers are sewn on the garments. The quality check in respect of the labels received by the Group is carried out before the labels are transferred to the production department for production.

Hangtags attaching

Hangtags with textile details and sales details such as price and size are attached on the finished products. After hangtags attaching, final checking is carried out.

Packing and delivery

The production staff packs all the finished products with hangtags and deliver to the designated warehouses of the customers for quality check.

Most of the recognised international apparel customers carry out comprehensive quality assurance review before they take delivery of the finished products. The Group has also entered into compliance agreements with some customers which sets out, among others, (i) specific requirements and standards for the production of the goods, components, trim, materials and packaging such as the facilities for the production of goods as approved by the customers; (ii) the terms and conditions of the purchase order; and (iii) the code of conduct of the Group. For example, the Group agreed not to distribute or otherwise transfer any products which have failed the quality assurance review, and will completely destroy any goods that are wearable with minimal flaws which have the customers' trademark or name screened, including tagless labels, embroidered, printed, engraved or otherwise incorporated directly onto the goods, as well as any goods that have failed applicable safety testing. Some of the customers pay regular on-site quality check for the products produced under their brand names.

Processing Agreements

The Processing Factory was established on 31 October 1988 under its former name and was responsible for the manufacturing of knitwear products for the 1st Former Foreign Party under the Master Processing Agreement.

Set out below are the material terms of the Master Processing Agreement and each of the supplemental agreements thereof entered into subsequently:

Master Processing Agreement

Date	:	26 October 1988
Parties	:	The 1st Former Foreign Party; The Former PRC Processing Party; and The Processing Factory in its former name (i.e Yangpo Yonghao)
Term	:	three years from 27 October 1988 to 26 October 1990, which was ultimately extended to 31 October 2011 under the 2nd Supplemental Processing Agreement, 5th Supplemental Processing Agreement, 6th Supplemental Processing Agreement, 7th Supplemental Processing Agreement and 8th Supplemental Processing Agreement

Primary responsibilities of the contracting parties:

(i) the Former PRC Processing Party and the Processing Factory shall provide processing services of knitted products to 1st Former Foreign Party at the processing fees to be agreed as mentioned below;

(ii) the Former PRC Processing Party and the Processing Factory shall provide utility, labour and production premises for the production;

(iii) the 1st Former Foreign Party shall provide all raw materials, accessories and packing materials necessary for the production;

(iv) the 1st Former Foreign Party shall provide a batch of machinery for the production as set out in the Master Processing Agreement (the ownership of which shall be transferred to the PRC Processing Party once the aggregate agreed cost of the machinery of HK$450,100 is fully paid by offsetting 20% of the processing fees paid by 1st Former Foreign Party);

(v) the 1st Former Foreign Party shall bear the responsibility for any defective products arising from defective raw materials or accessories or technical supervision by the 1st Former Foreign Party if the products have already left the Processing Factory; and

(vi) the 1st Former Foreign Party shall take out insurance coverage for the machinery, raw materials, accessories, packing materials, the WIPs and finished products.

Processing Fees:

(i) the processing fees payable by the 1st Former Foreign Party to the Former PRC Processing Party for the first year shall be approximately HK$600,000 and that for the subsequent years shall include an increment based on the first-year processing fees; and

(ii) the exact amount of the processing fees shall be determined by negotiation between the parties with reference to, among other things, the specifications of the samples or the cost of the trial production and that each staff shall have a monthly salary of at least HK$600 on the basis of 26 working days a month and an 8 hours day.

Termination or renewal:

(i) if any party to the Master Processing Agreement wishes to terminate or renew the Master Processing Agreement, the parties shall negotiate to reach an agreement six months prior to the expiry date thereof.

1st Supplemental Processing Agreement

Date : 16 April 1990

Parties : The 2nd Former Foreign Party;

The Former PRC Processing Party; and

The Processing Factory in its former name (i.e. Yangpo Yonghao)

Material terms:

(i) the 2nd Former Foreign Party agreed to lend a set of machinery and equipment of an aggregate value of HK$239,000 to the Processing Factory at no cost;

(ii) the processing fees attributable to the new machinery shall amount to approximately HK$500,000 per year but the exact fee shall be further agreed;

(iii) the monthly salary for each production staff shall be above HK$800, and which shall be increased by 10% annually; and

(iv) the 1st Former Foreign Party was changed to the 2nd Former Foreign Party together with a change of authorised representative.

2nd Supplemental Processing Agreement

Date : 10 May 1991

Parties : The 2nd Former Foreign Party;

The Former PRC Processing Party; and

The Processing Factory in its former name (i.e. Yangpo Yonghao)

Material term:

The term of Master Processing Agreement (as supplemented by the 1st Supplemental Processing Agreement) was extended for five years to 30 October 1996.

3rd Supplemental Processing Agreement

Date	:	21 April 1995
Parties	:	Nice Regent;
		The Former PRC Processing Party; and
		The Processing Factory

Material terms:

(i) the Processing Factory was renamed as Dongguan Da Lang Xiang Wei Fornton Knitting Factory; and

(ii) Nice Regent took over all the rights and obligations of the 2nd Former Foreign Party under the Master Processing Agreement (as supplemented by the 1st Supplemental Processing Agreement and 2nd Supplemental Processing Agreement).

4th Supplemental Processing Agreement

Date	:	5 May 1995
Parties	:	Nice Regent;
		The Former PRC Processing Party; and
		The Processing Factory

Material term:

Nice Regent shall lend a set of machinery and equipment of an aggregate value of HK$333,000 to the Processing Factory.

5th Supplemental Processing Agreement

Date	:	9 September 1996
Parties	:	Nice Regent;
		The Former PRC Processing Party;
		The PRC Processing Party; and
		The Processing Factory

Material terms:

(i) the Former PRC Processing Party shall transfer its rights and obligations under the Master Processing Agreement (as amended by the 1st, 2nd, 3rd and 4th Supplemental Processing Agreements) to the PRC Processing Party;

(ii) the Former PRC Processing Party shall become a business agent; and

(iii) the term of the Master Processing Agreement (as supplemented by the 1st Supplemental Agreement, the 2nd Supplement Processing Agreement, the 3rd Supplemental Processing Agreement and the 4th Supplemental Processing Agreement) was extended to 31 October 2001.

(iv) the processing fees for the first year of the extended period shall be HK$1,200,000, which shall be increased by 10% for each subsequent year; and

(v) the monthly salary for each production staff shall not be less than HK$800.

6th Supplemental Processing Agreement

Date : 28 May 2001

Parties : Nice Regent;

The PRC Processing Party;

The Processing Factory; and

The Former PRC Processing Party

Material terms:

(i) the term of Master Processing Agreement (as supplemented by the 1st, 2nd, 3rd, 4th and 5th Supplemental Processing Agreements) was extended for an additional five years to 31 October 2006;

(ii) the processing fees for the first year of the extended term shall be HK3,000,000, which shall be increased by 10% in each subsequent year; and

(iii) the monthly salary of each staff of the Processing Factory shall not be less than HK$800.

7th Supplemental Processing Agreement

Date : 20 September 2006

Parties : Nice Regent;

The PRC Processing Party;

The Processing Factory; and

The Former PRC Processing Party

Material terms:

(i) the term of Master Processing Agreement (as supplemented by the 1st, 2nd, 3rd, 4th, 5th and 6th Supplemental Processing Agreements) was extended for an additional two years to 31 October 2008;

(ii) the processing fees for the first year of the extended term shall be HK3,000,000, which shall be increased by 10% in each subsequent year; and

(iii) the monthly salary of each staff of the Processing Factory shall not be less than HK$800.

8th Supplemental Processing Agreement

Date : 29 July 2008

Parties : Nice Regent;

The PRC Processing Party;

The Processing Factory; and

The Former PRC Processing Party

Material terms:

(i) the term of Master Processing Agreement (as supplemented by the 1st, 2nd 3rd, 4th, 5th, 6th and 7th Supplemental Processing Agreements) was extended for an additional three years to 31 October 2011;

(ii) the processing fees for the first year of the extended term shall be HK3,000,000, which shall be increased by 10% in each subsequent year; and

(iii) the monthly salary of each staff of the Processing Factory shall not be less than HK$800.

9th Supplemental Processing Agreement

Date	:	23 June 2011
Parties	:	Nice Regent;
		The PRC Processing Party;
		The Processing Factory; and
		The Former PRC Processing Party

Material terms:

(i) the term of Master Processing Agreement (as supplemented by the 1st, 2nd 3rd, 4th, 5th, 6th, 7th and 8th Supplemental Processing Agreements) was extended for an additional two years to 31 October 2013;

(ii) the processing fees for the first year of the extended term shall be HK$7,800,000, which shall be increased by 10% in each subsequent year; and

(iii) the monthly salary of each staff of the Processing Factory shall not be less than HK$1,300.

Party responsible for other issues

According to the Processing Agreements, the Processing Factory shall be responsible for the labour related issues and liable for defective products except those caused by the defects of materials or the mistakes of technical guidelines provided by the Group. There are no specific provisions concerning the responsible party for environmental protection and work safety, but the PRC Legal Advisers advised that the Processing Factory shall be responsible for the environmental protection and work safety issues pursuant to the Interim Measures of the Approval and Management of Processing Trade.

Approval and extension for the Processing Agreements

The Master Processing Agreement and relevant supplemental processing agreements as set out above were approved by Dongguan FEWC or Dongguan FETC (as the case may be), both of which are appropriate authorities to approve the Processing Agreements as advised by the PRC Legal Advisers. On 23 June 2011, the Group has extended the processing arrangement to 31 October 2013 pursuant to the 9th Supplemental Processing Agreement and on 7 July 2011, the business licence of the Processing Factory was extended to 31 October 2013 as well. As advised by the PRC Legal Advisers, there is no substantive legal impediment for the Group and the PRC Processing Party to obtain further approval for the extension of the Processing Agreements and extension of the business licence of the Processing Factory. In view of the further extension of the business license to 13 October 2013, the Processing Factory has no current intention and imminence to apply for the transformation to foreign-owned enterprise and may make such decision only subject to the Group's operations and the overall business environment approaching the expiry of the business license in 2013.

No material breach of the Processing Agreements

As confirmed by the PRC Processing Party, the Processing Factory and the Former Processing Party on 31 March 2011, Nice Regent has complied with the terms of the Processing Agreements during the Track Record Period. Except for the non-compliance of the PRC regulations related to social insurance and housing provident fund, there was no breach of the Processing Agreements by the aforesaid three counterparties during the Track Record Period and up to the Latest Practicable Date in any material respect. As confirmed by the PRC Legal Advisers, the Processing Factory, instead of Nice Regent, is the party responsible for the payment of the social insurance fee, housing provident fund and any penalty (if any).

Background information of the contracting parties

The PRC Processing Party

The PRC Processing Party was established by 東莞市大朗鎮對外加工裝配有限公司 (Dongguan Dalang Foreign Processing Co. Ltd*) on 25 July 1987 as 集體所有制 (a collective ownership enterprise*). The PRC Processing Party is a government organization under the supervision of 東莞市財貿辦 (Dongguan Financial Trade Office*) and is mainly responsible for the governance of all the processing arrangements in Dalang Town. The PRC Processing Party and its beneficial owners are Independent Third Parties. During the Track Record Period, part of the Group's production relied on the processing arrangement as stipulated under the Processing Agreements. The Directors believe that the Processing Agreements enable the Group to improve production efficiency, reduce production costs and assist in maintaining a competitive cost base.

The Former PRC Processing Party

The Former PRC Processing Party is a government-funded legal entity responsible for the governance of all the processing arrangements in Dongguan City. It delegated its governing authority of the processing arrangements in Dalang Town to respective government funded legal entities in Dalang Town with a view to reducing its heavy workload arising from the blossoming of the processing arrangements in Dongguan City in the 1990s. As such, the role of business agent as taken up by the Former PRC Processing Party is to oversee the whole processing arrangement under the Processing Agreements and no specific fees are paid to the Former PRC Processing Party in this connection. The Former PRC Processing Party remained in such role as at the Latest Practicable Date.

The Processing Factory

To the best of the Company's knowledge, information and belief, the Processing Factory was set up under the Processing Agreements solely for carrying out the customer orders received from Nice Regent. However, there is no provision in the Processing Agreements which prohibits the PRC Processing Party from entering into other processing arrangements with Independent Third Parties for the provision of similar processing services. So far as the Company is aware, the Processing Factory provided processing services solely for the Group during the Track Record Period. According to the effective business license of the Processing Factory, its business scope is manufacturing of knitwear (except those knitwear products which require relevant authorities' approval) and thus it is entitled to do business pursuant to the aforesaid business scope approved in the business licence, and its lawful business activities are under the protection of relevant PRC laws and regulations.

Processing Fees

During the Track Record Period, the Processing Fees included the rental of the Processing Factory, direct and indirect labour cost and utility cost and staff cost attributable to the production of the Group's products. Ownership of the machinery and equipment provided by the Group remains vested in the Group and is required to be returned to the Group upon the termination of the Processing Agreements. As at the Latest Practicable Date, no machinery and equipment used in the Processing Factory were provided by the 1st Former Foreign Party and the 2nd Former Foreign Party and all the machinery and equipment used therein are owned by Nice Regent. Labour cost is subject to variation depending on the number of workers actually engaged by the PRC Processing Party for the production to the Group and the amount of overtime allowance payable to such workers.

The following table sets out the breakdown of the Processing Fees paid by the Group during the Track Record Period:

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

As at 31 December 2008, 31 December 2009, 31 December 2010 and 30 April 2011, the carrying amount of machinery and equipment provided by the Group to the Processing Factory were approximately HK$3,590,000, HK$2,767,000, HK$2,387,000 and HK$2,377,000 respectively. For the Track Record Period, the production volume of the Group amounted to approximately 2,370,000 pieces, 2,888,000 pieces, 3,020,000 pieces and 453,000 pieces of garments respectively.

The Directors have confirmed that the pricing and other terms of the Processing Agreements and the rental charged under the Processing Factory Tenancy Agreement 1996 and the Processing Factory Tenancy Agreement 2000 during the Track Record Period were effected on arm's length basis and on normal commercial terms.

The PRC Legal Advisers have confirmed that the terms of the Processing Agreements do not contravene any laws and regulations in the PRC on the following basis:

(i) The execution and amendments of the Processing Agreements have been approved by competent Foreign Trade and Economic Cooperation Bureau pursuant to relevant PRC Laws;

(ii) The contents and form of the Processing Agreements are both legitimate and valid. The Processing Agreements are legally binding and enforceable;

(iii) The Processing Factory was established in accordance with the PRC Laws; and

(iv) The Processing Factory operating as a processing entity to carry out the manufacturing operation under the Processing Agreements has obtained all the relevant legal approvals and consents.

Tenancy agreements

The Processing Factory

The Processing Factory Tenancy Agreement 1996

Date	:	30 March 1996
Parties	:	東莞市大朗鎮巷尾管理區 (Dongguan Dalang Xiangwei Administrative District*) (now known as 東莞市大朗鎮巷尾社區居民委員會 (Dongguan Dalang Xiangwei Residents Committee*)), as the lessor Nice Regent, as the lessee
Term	:	six years to 31 December 2001

Material terms:

(i) The lessor shall lease to Nice Regent a production plant comprising an industrial building, a dormitory and other facilities of a total gross floor area of approximately 3,140 sq.m. located in 坑尾塘 (Kang Wei Tang) in Dongguan City;

(ii) The annual rental shall amount to HK$250,000 to HK$360,000; and

(iii) Either of the parties shall give 3-month prior notice to the other party for the extension or termination of the leasing of the premises. If such termination is not agreeable to either party, the aggrieved party shall be paid 3 months rent by the party in breach as compensation.

The Processing Factory Tenancy MOU 1999

On 17 September 1999, Nice Regent and Dalang Xiangwei entered into a legally binding memorandum of understanding pursuant to which:

(i) Dalang Xiangwei agreed to build a new production plant and other ancillary facilities with an aggregate floor area of approximately 140,000 sq.m for Nice Regent to substitute the then existing production premises of the Processing Factory;

(ii) Once the new production factory and other ancillary facilities were built, Dalang Xiangwei, as the lessor, shall lease the new production premises to Nice Regent at a monthly rental ranging from RMB7.8 to RMB8.8 per sq.m; and

(iii) Nice Regent shall pay Dalang Xiangwei an earnest money of RMB500,000 (of which RMB250,000 shall be settled within 10 days from the date of signing and the remaining half shall be settled upon the completion of construction work of the new production factory was half-way through), which shall be used to offset the rental from the 19th month of leasing of the new production factory.

The Processing Factory Tenancy Agreement 2000

Date	:	28 November 2000
Parties	:	Dalang Xiangwei, as the lessor
		Nice Regent, as the lessee
Term	:	until 31 December 2012
		(as extended under supplemental agreement dated 1 January 2010)

Material terms:

(i) The lessor shall lease to Nice Regent the newly constructed production plant as agreed to be built by the lessor under the Processing Factory Tenancy MOU 1999 with a gross floor area of approximately 17,437.36 sq.m. located in 新美塘 (Xin Mei Tang) in Dongguan City; and

(ii) The annual rental shall amount to approximately HK$1,632,000 to approximately HK$1,841,000.

The FC Factory

The FC Tenancy Agreement

Date	:	17 November 2005
Parties	:	Dongguan Changping Baishigang Village Committee, as the lessor;
		Fornton Holdings, as the lessee from 2005 to 2008
		Nice Regent, as the lessee from 2008 to 2013
Term:	:	until 30 November 2013
		(as extended under supplemental agreement dated 1 December 2008 and 26 November 2010 respectively)

Material terms:

(i) The lessor shall lease to Nice Regent a production plant comprising a 3-storey factory building, two blocks dormitory and other ancillary facilities with an aggregate gross floor area of approximately 12,000 sq.m. located in Baishigang village in Dongguan City;

(ii) The annual rental shall range from RMB$57,800 to RMB$78,000; and

(iii) Either party shall pay the other party 6-month rental with 3-month advance notice if they terminate the agreement before the expiry.

Non-compliances with relevant rules and regulations by Fung Ching in respect of the FC Factory

Non-compliance with relevant regulations relating to social insurance contributions before the Track Record Period

As set out in the legal opinion issued by the PRC Legal Advisers, according to the confirmation letter issued by 東莞市社會保障局常平分局 (Changping branch office of Dongguan Social Security Department*) (the "Social Security Department") on 2 March 2011, Fung Ching has made the social insurance contributions (including endowment insurance, medical insurance, injury insurance, maternity insurance and unemployment insurance) for its employees from 1 October 2006 to 2 March 2011, and has complied with all national and local laws relating to social insurance during the Track Record Period. However, for the period commencing from 28 February 2006 (date of incorporation of Fung Ching) to 1 October 2006, Fung Ching did not make any social insurance contributions for its employees as Fung Ching only obtained its social insurance registration certificates on 25 September 2006 after a period of time to establish its operations and recruit sufficient labour and staff for its production. According to the abovementioned confirmation letter, the Social Security Department, which is the appropriate and competent government authority to discharge entity's liability relating to social insurance contributions as confirmed by the PRC Legal Advisers, agreed to discharge all the possible liabilities (including all possible social insurance fees payable by Fung Ching) before 1 October 2006 and all possible penalty. As such, no provision was made by the Group for the potential penalty.

Non-compliance with relevant regulations relating to housing provident fund

Pursuant to the disclosure in the paragraph headed "Non-compliance with relevant regulations relating to housing provident fund" in the section headed "Risk factors" in this document, Fung Ching is required to register with the applicable housing fund management centre and establish a housing fund account with an entrusted bank for each employee and make contributions for all of its employees to the housing fund account as part of its employees' welfare and benefits. Fung Ching has not made relevant contribution for every employee as some of its employees were unwilling to participate in the housing provident fund schemes. During the Track Record Period, the unpaid contributions of the housing provident fund amounted to approximately HK$487,000, HK$382,000, HK$319,000 and HK$67,000 respectively.

As advised by the PRC Legal Advisers, according to《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the housing provident fund management centre possesses the discretion right to notify the non-complying unit to establish a housing provident fund account for each employee and/or to make contributions towards the housing provident fund within a specific time limit. Should the unit fail to establish housing provident fund account for its employees and/or to contribute towards housing provident fund within that specified time limit, the management center of housing provident fund may impose fines ranging from RMB10,000 to RMB50,000 and may apply to the People's Court to enforce the payment of any housing provident fund under the relevant PRC laws and regulations. No provision has been provided by the Group for such potential penalty because (i) as at the Latest Practicable Date, Fung Ching has not received any notification or directive from the relevant authority for housing provident fund contribution and, there is no penalty imposed on Fung Ching for failure to make punctual and full housing provident fund contributions; (ii) there is also no claim made by the employees of Fung Ching in respect of the non-contribution towards the housing provident fund; and (iii) the amount of possible penalty is insignificant.

Notwithstanding the above, the Company will comply with the necessary filing requirements for all of Fung Ching's employees and settle all the outstanding housing provident fund contribution to the relevant authorities prior to the [●].

Indemnity given by the Controlling Shareholders

In relation to the aforesaid, the Controlling Shareholders have undertaken to indemnify the Group for any losses arising from the above breaches of Fung Ching including but not limited to any losses suffered by the employees of Fung Ching due to the Group's failure to make the housing provident fund contribution, penalties and surcharges that may be imposed by the relevant authorities. The [●] is of the view that the Controlling Shareholders have sufficient financial resources to satisfy such indemnities.

Non-compliances with relevant rules and regulations by the Processing Factory

Non-compliance with relevant regulations relating to social insurance

As advised by the management of the Processing Factory, as at the Latest Practicable Date, the Processing Factory has not made social insurance contributions for every employee as some of the employees of the Processing Factory were unwilling to participate in the social insurance scheme. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, the unpaid contributions thereof amounted to approximately HK$4.9 million, HK$4.9 million, HK$6.0 million and HK$1.9 million respectively.

As advised by the PRC Legal Advisers, pursuant to the PRC Social Insurance Law, if the Processing Factory fails to make the full contribution on time, the relevant social insurance fee levy authorities are entitled to order the non-complying unit to make the social insurance contribution for its employees within a specified time limit and pay the daily surcharges of 0.05% calculated on the unpaid contribution from the due date on which the social insurance contribution should have been made. If the Processing Factory fails to make the contribution within the period set out in any payment demand that might be issued to the Processing Factory by the relevant social insurance fee levy authorities, the Processing Factory will be subject to fines equal to one to three times of the unpaid contribution. No provision has been provided by the Group for such unpaid contribution and potential penalty and no rectification measures by the Group are necessary for the non-compliance of the Processing Factory because (i) as at the Latest Practicable Date, the Processing Factory has not received any notification or directive from the relevant authority for the social insurance contributions, and there is no penalty imposed on the Processing Factory for failure to make punctual and full social insurance contributions for its employees; (ii) there is also no claim made by the employees of the Processing Factory in respect of the non-contribution towards the social insurance schemes; and (iii) as advised by the PRC Legal Advisers, the Processing Factory will be solely liable for all the liabilities arising from the social insurance contributions and Nice Regent or the Group will not be liable for the said liabilities because the Processing Factory, instead of Nice Regent, is the party which entered into the labour contracts with its employees and thus the Processing Factory shall be the party obliged to pay social insurance pursuant to the PRC Social Insurance Law. As advised by the Company, the Processing Factory may not recomply with relevant laws and regulations and the main reason being its employees are unwilling to participate in the social insurance contributions.

Non-compliance with relevant regulations relating to housing provident fund

Pursuant to the disclosure in the paragraph headed "Non-compliance with relevant regulations relating to housing provident fund" in the section headed "Risk factors" in this document, the Processing Factory is required to register with the applicable housing fund management centre to establish a housing fund account with an entrusted bank for each employee and make contributions for all of its employees to the housing fund account as part of its employees' welfare and benefits. As advised by the management of the Processing Factory, as at the Latest Practicable Date, the Processing Factory has not made contributions to the housing provident fund for every employee as some of the employees of the Processing Factory were unwilling to participate in the housing provident fund scheme. During each of the three years ended 31 December 2010 and four months ended 30 April 2011, the unpaid contributions thereof amounted to approximately HK$1.1 million, HK$1.1 million, HK$1.3 million and HK$0.4 million respectively.

As advised by the PRC Legal Advisers, according to 《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the housing provident fund management centre possesses the discretion right to notify the non-complying unit to establish a housing provident fund account for each employee and/or to make contributions towards the housing provident fund within a specific time limit. Should the unit fail to establish housing provident fund account for its employees and/or to contribute towards housing provident fund within that specified time limit, the management center of housing provident fund may impose fines ranging from RMB10,000 to RMB50,000 and may apply to the People's Court to enforce the payment of any housing provident fund under the relevant PRC laws and regulations. No provision has been provided by the Group for such non-compliance and no rectification measures by the Group are necessary for the non-compliance of the Processing Factory because (i) as at the Latest Practicable Date, the Processing Factory has not received any notification or directive from the relevant authority for housing fund contribution and, there is no penalty imposed on the Processing Factory for failure to make punctual and full housing provident fund contributions; (ii) there is also no claim made by the employees of the Processing Factory in respect of the non-contribution towards the housing provident fund; (iii) as advised by the PRC legal Advisers, the Processing Factory will be solely liable for all the liabilities arising from the housing provident fund contributions and Nice Regent and the Group will not be liable for such unpaid contributions and all possible penalty because the Processing Factory, instead of Nice Regent, is the party which entered into the labour contracts with its employees and thus the Processing Factory shall be the party obliged to pay the housing fund for its employees pursuant to the 《住房公積金管理條例》(Regulations on the Administration of the Housing Fund*); and (iv) the amount of the potential penalty is insignificant. As advised by the Company, the Processing Factory may not recomply with relevant laws and regulations relating to housing provident fund as its employees are unwilling to participate in the housing provident fund.

Indemnity given by the Controlling Shareholders

Notwithstanding that the Group is not liable for the contributions and payments of the social insurance and housing provident fund of Processing Factory, in any event, the Controlling Shareholders have undertaken to indemnify the Group for any losses arising from the above breaches of the Processing Factory including but not limited to any (if at all) reimbursement to the Processing Factory by the Group in respect of the outstanding expenses on the social insurance contribution and the housing provident fund and/or the penalty for the noncompliance of timely and full social insurance contribution and housing provident fund contribution of the Processing Factory.

Save for the non-compliances as disclosed above, the Directors confirmed that the Group has complied with all the relevant PRC regulatory requirements in respect of the Processing Agreements during the Track Record Period. As advised by the PRC Legal Advisers, the Processing Factory has obtained all necessary licences, approvals and permits from the appropriate regulatory authorities for its business operations in the PRC pursuant to the Processing Agreements and save as aforesaid, has complied with relevant laws and regulations relevant to the Group's business in material respects.

With a view to ensuring the continuous compliance with the relevant PRC regulatory requirements, the Group intends to engage a PRC legal consultant to handle all the PRC legal matters of the Group.

Property interests

Hong Kong

The Group's headquarter in Hong Kong is located at Unit A, 32nd Floor, Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon with a gross floor area of approximately 8,887 sq.ft. leased by the Group from Long Rise, a company owned as to 50% by Madam Wong and 50% by her father. Pursuant to the Headquarter Tenancy Agreement, the monthly rental is HK$150,000. The Valuer has reviewed the Headquarter Tenancy Agreement and confirmed that the rent payable under the Headquarter Tenancy Agreement is fair and reasonable and is consistent with prevailing market rates for similar premises in similar locations in Hong Kong and the terms of the Headquarter Tenancy Agreement are on a normal commercial terms. The text of the Valuer's letter, summary of valuations and valuation certificates are set out in Appendix III to this document.

PRC

FC Factory

Details of the FC Factory are disclosed in the paragraph headed "The FC Factory" of the sub-section headed "Production" in this section. The text to the Valuer's letter, summary of valuations and valuation certificates are set out in Appendix III to this document.

The Processing Factory

Details of the Processing Factory are disclosed in the paragraph headed "The Processing Factory" of the sub-section headed "Production" in this section. The text to the Valuer's letter, summary of valuations and valuation certificates are set out in Appendix III to this document.

New production plant

Details of the new production factory are disclosed in the paragraph headed "The Processing Factory" of the sub-section headed "Production" in this section. The text to the Valuer's letter, summary of valuations and valuation certificates are set out in Appendix III to this document.

Production capacity

All the Group's products have been produced at the Processing Factory since 1996 and the FC Factory since 2006 with some procedures outsourced to the subcontractors. As at the Latest Practicable Date, the FC Factory had 140 sets of computerised knitting machines and 177 sets of manually operated knitting machines whilst the Processing Factory had 9 sets of computerised knitting machines and 225 manually operated knitting machines. All the equipment and machinery were sourced from Italy, Germany and the PRC.

Set out below are the production capacity of the Processing Factory and the FC Factory:

	Estimated annual production capacity (pieces of WIPs/ apparels in thousands) *(Note 2)*			Approximate output volume for the year ended 31 December (pieces of WIPs/ apparels in thousands) *(Note 3)*			Approximate utilisation rate for the year ended 31 December (%) *(Note 4)*			Approximate utilisation rate for the four months ended 30 April
	2008	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**	**2011**
Production of WIPs:										
The FC Factory *(Note 1)*	921	921	1,126	213	173	182	23.1	18.8	16.2	22.7
Production of finished goods:										
The Processing Factory	1,601	1,601	1,805	2,370	2,888	3,020	N/A	N/A	N/A	N/A

Notes:

1. The FC Factory only carries out pre-laundering procedures and thus its output is in terms of pieces of swatches.

2. The annual maximum output of the Processing Factory is estimated based on the assumption that the output is solely produced by the Processing Factory with part of its knitting procedure outsourced to the FC Factory without outsourcing to other subcontractors.The Processing Factory operates for 302 days per year and 9 hours per day.

3. As the Processing Factory outsources various production procedures (including but not limited to knitting, linking and handstitching procedures) to the subcontractors in the PRC, the annual output of the Processing Factory is enlarged and thus it is larger than the estimated production capacity thereof.

4. It is not feasible to calculate the utilisation rate of the Processing Factory without taking into account the output of the subcontractors as the Company is not able to quantify the exact amount of output contributed by the subcontractors from the annual output of the Processing Factory.

The Group plans for its production every year based on the orders of the customers forecasted by the Company. Detailed production is planned on the basis of the actual orders received. The Group also reviews its production plan regularly in order to ensure that the finished products are delivered in a timely manner. For the three years ended 31 December 2010, the low utilisation rate of the FC Factory was mainly due to the labour shortage prevailing in the Guangdong Province arising from substantive outflow of workers back to their hometown following the outburst of the financial crisis in 2008 and thus some pre-laundering procedures of the Group's production were outsourced to the subcontractors instead of being carried out in the FC Factory. For the four months ended 30 April 2011, the utilization rate increased to approximately 22.7% due to computerization of the production of the Group, despite more accute labour shortage in Guangdong Province for the same period. After the installation of an additional 120 computerised knitting machines in the second quarter of 2011, it is expected that the demand for production labour for knitting procedures of the Group would decrease. As such, the Directors believe that the labour shortage situation prevailing in the Guangdong Province will not adversely affect the operation of the Group.

Outsourcing

To mitigate the bottlenecked situation of the production process, maximise the production capacity of the Group and tackle difficulty in recruiting production staff to the handle the labour intensive procedures such as knitting and handstitching in the Guangdong Province, some production procedures such as knitting, linking and handstitching procedures were outsourced to other production factories in the PRC (i.e. the subcontractors). Despite the fact that both the FC Factory and the Processing Factory is capable of carrying out the same production procedures as the subcontractors did, some of the subcontractors are specialised in and handled only one specific production procedure and some of them also installed computerised knitting machines for production. As such, it is more efficient and cost effective to outsource the specific production procedures to the subcontractors specialised therein during the peak seasons or labour shortage. The Processing Factory has not entered into any formal master subcontracting agreements with the subcontractors. Instead, the Processing Factory issues subcontracting notes to the subcontractors to confirm the quantities, the required production procedures and specifications of the WIPs. The subcontracting fees are settled by cheques and offset by the prepayment provided to the subcontractors by the Group. The Group carries out quality assurance checks for most of the knitted, linked and handstitched garments produced by the subcontractors so as to ensure the high quality of the products. During the Track Record Period, the Group has not experienced any material adverse consequence from any unsatisfactory products produced by the subcontractors.

The Directors believe that the Processing Factory's outsourcing arrangement optimises the production flow, resolves the bottleneck of the production process, allows the Group to leverage on the expertise and resources of the subcontractors, and reduce the reliance on the availability of skillful labour. In addition, the Group is not required to make significant capital investments for additional production facilities for boosting up the production capacity.

The subcontracting fees are determined on the basis of the complexities of the specifications of the knitwear products, the estimated time required and labour cost for the processing of each order. In respect of the knitting procedures of the knitwear products, the Group, through the Processing Factory, provides specified amount of yarn in terms of weight to the subcontractors for the production of knitted garments. By the time the subcontractors finish the production, the Group would reconcile the weight of the knitted garments produced by the knitting subcontractors with the weight of yarn provided by the Processing Factory to the knitting subcontractors at the beginning of production, and would make sure a specified amount (in terms of piece) of swatches are produced. The Processing Factory would ensure that there is no material discrepancy between the weight of yarn and the weight of knitted garments. The Group will check it through the weight matching process carried out in the Processing Factory before proceeding to the next production procedure.

For the three years ended 31 December 2010 and four months ended 30 April 2011, the Processing Factory had approximately 168, 149, 173 and 80 subcontractors in the PRC respectively to handle various production procedures such as knitting, linking and laundering. During the Track Record Period, the aggregate subcontracting fees paid to top five subcontractors of the Group amounted to approximately 40%, 41%, 35% and 39% of the subcontracting fees. To ensure the quality of the products and compliance with the requirements standards set out by the customers, the Group (i) exercises comprehensive quality assurance check for almost all of the WIPs or finished goods produced by the subcontractors upon receipt thereof in the Processing Factory; (ii) engages professional third parties to perform lab-test for the samples produced by the sub-contractors; and (iii) regularly visits the subcontractors to enhance the communication. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the subcontractors have obtained necessary permits and licenses to commence production for the Group.

The Processing Factory places orders with the subcontractors on normal business terms and the subcontracting fees would be paid to the subcontractors within up to 30 days after the Group has delivered the finished products to its customers. As such, the actual credit periods granted by the Group's subcontractors during the Track Record Period normally ranged from one months to four months. As such and taking into account the production cycle of the Group, the Group will settle the subcontracting fees for the Processing Factory as long as the fees were incurred for the production of the Group's products in approximately 2.5 months after the receipt of the WIPs produced by the subcontractors. WIPs delivered by the subcontractors to the Group are end-products in respect of the subcontracting work and are not required to be returned to the subcontractors for further processing as further processing (if required) would be performed by the Processing Factory.

Taking into account a credit period from one month to four months granted by the sub-contractors, the Group is only required to pay the subcontracting fees to the subcontractor after delivery of end-products to the Group's customers. In order to ensure sufficient working capital for the production of the subcontractors in view of the long credit period granted thereby, the Group would normally prepay not more than 70% of the subcontracting fees to the subcontractors even they have not delivered all their products to the Group. The Group would sometimes prepay more than 70% of the subcontracting fees on the subcontractors' special requests taking into account the years of relationships with the subcontractors and the subcontracting fees would be settled by the end-products delivered by the subcontractors. As at 31 December 2008 and 2009, the outstanding prepayments to the subcontractors amounted to approximately HK$3.4 million and HK$0.8 million respectively which were both fully utilized as at the Latest Practicable Date. As at 31 December 2010, the outstanding prepayments to the subcontractors amounted to approximately HK$3.8 million, of which approximately 99.9% were utilized as at the Latest Practicable Date. As at 30 April 2011, the outstanding prepayments to the subsidiaries amounted to approximately HK$1.5 million, of which approximately 99.9% were utilized as at the Latest Practicable Date. Such prepayments would be recognised as subcontracting fees in the income statement of the Group after the Group delivered the finished goods to its customers. The subcontracting fees charged by the subcontractors ranged from HK$1.9 to HK$80 per pound/piece of the yarn depending on the complexity and requirements of the customers for the three years ended 31 December 2010. As confirmed by the Directors, all the subcontractors of the Processing Factory are Independent Third Parties and the terms of the subcontracting arrangement between the Processing Factory and the subcontractors were negotiated on an arm's length basis and on normal commercial terms. During the Track Record Period, the subcontracting costs of the Group amounted to approximately HK$72.8 million, HK$86.4 million, HK$106.0 million and HK$15.9 million respectively, representing approximately 31.1%, 36.6%, 38.8% and 41.5% of the Group's cost of sales in the respective periods. The subcontractors are required to compensate the Group if there are damages on the WIPs or the finished knitwear products caused by the subcontractors during the production process.

During the Track Record Period, there are no material conflicts or disputes arising from the failure to reach the standards as required or late delivery of the products between the Processing Factory and the subcontractors. The Directors believe that the Group, the Processing Factory and the subcontractors have maintained good business relationships despite the fact that the Processing Factory has not entered into any fixed-term contracts with them. The Processing Factory had over 100 subcontractors during the Track Record Period. In view of the abundance of production factories in Dongguan City, the Group does not foresee any material difficulties in obtaining the required production services from the subcontractors through the Processing Factory in the PRC.

As confirmed by the Directors, none of the Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of the Company immediately following the completion of the [●] and [●], had any interests in any of the five largest subcontractors of the Group during the Track Record Period.

SALES AND DEVELOPMENT

Sales and merchandising

Since the commencement of the manufacturing business, the Group has been able to secure a number of customers including but not limited to international fashion groups with wide variety of products marketed under numerous well-recognised labels or trademarks and sold in their franchised or chain stores located all over the world. As at the Latest Practicable Date, the labels of the apparel manufactured by the Group included but are not limited to Jones New York, Strellson, and Anne Klein. The top five customers in terms of the revenue generated for the Group during the Track Record Period have international well-known labels and have maintained long-term business relationships with the Group for more than 5 years and 10 years respectively. For the Track Record Period, the aggregate turnover generated from the top five customers of the Group amounted to approximately 88.4%, 89.9%, 89.4% and 93.9% of the Group's total turnover respectively and the Group's largest customer accounted for approximately 52.6%, 55.4%, 56.3% and 70.0% respectively of the Group's total revenue for the Track Record Period.

Apart from the direct sales of products to the international brand owners, the Group also sells its products to some of the trading companies in Hong Kong which are mainly engaged in sourcing quality apparel products or accessories in the PRC for the relatively small-scale overseas apparel companies. The orders placed by such companies through the trading companies are relatively small as compared with that by direct customers of the Group. During the Track Record Period, turnover generated by such trading companies represented approximately 0.9%, 1.8%, 1.1% and nil of the Group's total turnover respectively.

The Directors believe that it is a common practice in the apparel industry that some of the overseas customers prefer cooperating with the trading companies in Hong Kong in lieu of dealing with the manufacturers directly. Normally the trading companies in Hong Kong provide services including but not limited to sourcing designated designs in line with the style or theme of the coming collections of the customers from different manufacturers in the PRC, providing quality assurance check prior to the product delivery, financing the production by placing deposits to manufacturers and offering credit sales to their immediate customers.

The sales and merchandising department of the Group is principally responsible for searching potential customers, handling enquiries from existing customers and following up the orders and shipments of products for the customers. To maintain close relationships with the customers or foster new business relationships with potential customers of the Group, the sales and merchandising department also pays regular visits to the existing customers in Hong Kong, Europe, USA and the PRC so as to keep pace with the requirements or development trend or direction of the customers. They also showcase the potential customers the Group's products and production capacity by slideshows or face-to-face presentations or by inviting them to visit the production facilities of the Group located in the PRC and/or showroom in Hong Kong. The Directors are of the view that it is essential for the Group to understand the business focus and development objectives of the customers and to foster better understanding of the customers in respect of the Group's competitive edge in terms of its production capacities and design and development capabilities.

To further strengthen the sales and merchandising department, the Group has recruited more experienced professionals to devise the overall objectives and direction of the business development and exploring more business opportunities to cooperate with the international brand owners.

The Directors believe that the success of the Group to establish the strong and long-term business relationships with its key customers is mainly attributable to quality and timely delivery of the medium to high-end products and, more importantly, the design and development of value-added services provided by the Group which is detailed in sub-section headed "Design and development" in this section.

Given the aforesaid value-added services provided by the Group to the customers, the customers are able to reduce the procurement costs for searching adequate materials for production, secure the supply of the raw materials and accessories and increase their competitiveness in the rapidly-changing global apparel market. The Directors believe that such full-fledged pre-order and after-sale value-added services help foster strong loyalty of customers and reinforce the commitment from the customers to place further orders with the Group. Leveraging on such close relationships between the Group and its customers, the Directors believe the Group is able to obtain a stable demand for its knitwear products and maintain a relatively stable production scale throughout favourable or unfavourable market conditions.

To strengthen the position of the Group as a knitwear manufacturer for the international apparel groups with their products sold all over the world, the Group selects its customers in terms of the cost of raw materials, the size of the orders, the complexity of the knitting pattern, the years of relationship, the market position in their respective retail markets, financial position and working culture in a prudent way. The Group prefers long-term relationships with its customers instead of one-off orders placed by random customers. Customers with tight budget, lower market position in their respective markets, and unstable financial condition or working culture different from that of the Group will normally not be the target customers of the Group.

As most of the Group's direct customers are sizeable global brand owners based in USA and the European countries with renowned brand names, the Directors believe that the Group is only one of their suppliers of the required knitwear products and unlikely to be a sole manufacturer under their brands.

For the Track Record Period, the five largest customers accounted for approximately 88.4%, 89.9%, 89.4% and 93.9% of the Group's turnover respectively. The Group's largest customer during the Track Record Period is a prestigious fashion brand owner headquartered in USA. Turnover generated therefrom accounted for approximately 52.6%, 55.4%, 56.3% and 70.0% of the Group's total turnover respectively during the Track Record Period. The Group has been engaging in business with its five largest customers ranging from 6 to over 10 years.

None of the Directors, their respective associates or any Shareholder who will hold more than 5% of the issued share capital of the Company immediately following the completion of the [●] and the [●] had any interest in any of the five largest customers during the Track Record Period.

The table below sets out the difference in the sales arrangements and the terms offered to two major types of the Group's customers during the Track Record Period:

	Type of customers	
	Direct customers (USA and European apparel brand owners)	**Trading companies in Hong Kong**
Distribution channel	The finished products are packed in the Processing Factory and are delivered to the shipping companies arranged by Fornton Knitting. The shipping companies then deliver the products to the chain stores, franchised stores or other retail locations as designated by the direct customers of the Group including the brand owners based in USA and the European countries.	The finished products are packed in the Processing Factory and are delivered to the trading companies in Hong Kong for further quality assurance check and then the trading companies in Hong Kong transfer the finished products to the shipping companies for redistribution to the retailers scattered around the world.
Credit terms	Open account ranging from 30 to 45 days settled by telegraph transfer and letters of credit	Open account from 30 to 45 days settled by bank cheques and letter of credit

The sales of the Group to its customers including the international apparel groups based in USA and the European countries with their sales of products around the world and the trading companies in Hong Kong, were primarily fixed on "FOB Hong Kong" term, which means that the title of the knitwear products would pass to the customers once the products are delivered to the shipping companies in Hong Kong designated by the direct customers or by the trading companies in Hong Kong. Once the knitwear products are delivered to the customers' designated shipping companies or premises which are taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership are transferred, the sales to these customers were recognised as revenue.

To ensure that the credit terms granted to the respective customer are adequate and appropriate in view of the financial position of the customers, the years of relationships between the Group and the customers and overall economic condition of the market and that the credit risk is minimised, the Group reviewed the credit terms and settlement records of the customers regularly and adopted a strict credit control policy during the Track Record Period. During the Track Record Period, the Group had not experienced any significant level of bad debts. The senior management of the Group will review the receivables at the end of each reporting period to determine whether it is necessary and appropriate to make impairment for the receivables in accordance with the available objective evidence.

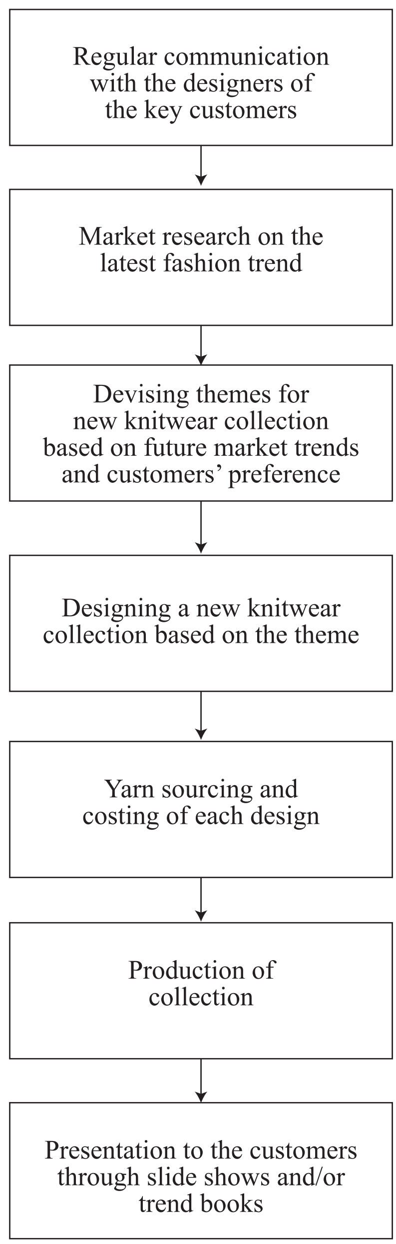
Design and development

To enhance the Group's ability to anticipate and effectively respond to the swift changing fashion trends in the global apparel market, the Group has established its design and development department since 2003. Also, since July 2002 the Group has engaged a design consultant to provide product design and development services to the Group. The Directors believe that the establishment of the design and development department and the services provided by the design consultant can enhance the competitive advantage of the Group, strengthen the business relationships with the existing customers and explore business opportunities with potential customers. As at the Latest Practicable Date, there was one designer with experience of seven years in the design and development department. During the Track Record Period, expenses incurred for the design and development activities of approximately HK$3.0 million, HK$2.7 million, HK$3.4 million and HK$1.4 million respectively were mainly attributable to (i) salary of staff in design and development department; (ii) design consultant fee; (iii) transportation fee for staff to take part in international trade shows or fashion shows; and (iv) sampling cost. During the Track Record Period, cost incurred for sampling amounted to approximately HK$1.1 million, HK$1.2 million, HK$2.8 million and HK$1.2 million respectively.

The services provided by the design and development department include but not limited to (i) designing and producing two collections of knitwear products every year to serve as a source of inspiration for the customers; (ii) producing samples in accordance with the specifications and preferences of the customers for the customers' consideration matching their budget and style; (iii) gauging the global fashion trends and yarn development by carrying out market research through international fashion magazines, websites, fashion shows and fashion trade fairs held in various cosmopolitan cities such as New York, Europe and presenting the findings to the customers through trend books, presentations or regular brainstorming meetings with the designers of the customers held in Hong Kong or New York; (iv) assisting the yarn development to develop and explore new yarn and new blending of yarn and knitting pattern for customers' consideration and inspiration; and (v) sourcing different raw materials and accessories based on the customer's requests. Notwithstanding that the Group and its customers held regular meetings for presenting the samples and brainstorming the designs with the designers of the customers, it is not feasible to quantify the percentage of revenue derived from customers' adoption of the Group's designs and samples as (i) the designers of the customers would normally only adopt the designs of the Group partially such as the designs of collars, sleeves, knitting pattern and cutting of the knitted products instead of full adoption; and (ii) the sales orders of the Group did not specify such partial adoption of the designs provided by the Group.

To enhance the capabilities of the design and development team for the expansion of the Group, the Group intends to assign their design and development team together with the sales and merchandising team to participate in the fashion exhibitions twice a year and acquire computer software for design and development, details of which are set out in the table relating to the future plans of the Group under the section headed "Future plans" in this document.

The designers of the department design two collections of knitwear products every year with each collection of a minimum of 80 new designs and three final samples for each new design. A total of a minimum of 240 pieces of knitwear products and 80 styles of swatches are produced per collection for the customers' consideration. With a view to strengthening the position as an ODM manufacturer in the market, the Group has put more emphasis on strengthening the design and development capacities of the Group. For the year ended 31 December 2010, the Group's sample cost increased by approximately 141.3% as compared to the previous year. Set out below is the process for the design and production of each collection per year:



To prepare two knitwear collections per year, the designers conduct market research on the latest fashion trends and yarn development. The market research is done by browsing the international fashion website, shop list, scanning the international fashion magazines or local magazines issued in different cities such as New York, Los Angeles, London, Paris, Milan, etc, and by communicating with the existing customers so as to have preliminary ideas of the themes of collection that the customers would like to release in the coming season.

After collecting information on the coming fashion trend through various sources, the design and development department starts devising the themes and trend for the coming collection of knitwear products. The department then sources specific yarn for its new collection before the production commences. After the production, the department then on a case by case basis holds presentation to the customers.

To innovate the designs produced by the Group in the previous seasons, the design and development department also works with the purchasing department to explore new blending of yarn and new knitting pattern swatches produced by the yarn suppliers. Sometimes the Group provides specification on the blending or knitting pattern of swatches to the yarn suppliers for specific order.

After sourcing the required raw materials for the products, the designers start (i) drawing sketches for the products when performing production specifications of the new designs such as type of yarn to be used, textures of the swatches and etc; (ii) following up the production process of the sample; and (iii) carrying out the size fitting and making some artworks for idea swatch.

Once the samples are produced, the design and development department takes photos of the samples so as to keep records for the entire collection. The team also prepares the costing of the samples to give a brief idea for the customers in respect of the budget of that particular design of knitwear products.

When the new collection of the knitwear products is produced, the design and development department then showcases the newly-produced collection in the showroom set up in the headquarter of the Group in Hong Kong for customers to visit or conducts presentation of the new collection to the customers overseas. The team also provides relevant photos and market information to the customers upon their requests. The sales and merchandising department would adopt the design once the customers are satisfied with particular styles.

Apart from the preparation of the collection for customers, the design and development department also sources trimming materials, makes graphic trend books and prepares sample orders for the customers on special requests to generate new ideas. The Directors believe that the design capacities of the Group and the value-added pre-order services provided by the design and development department of the Group contribute to the success of the Group in establishing strong and close relationships with its customers.

QUALITY ASSURANCE

In light of the keen competition in the global fashion apparel retail market and the long-established reputation of the customers maintained in the global apparel market, the customers put much emphasis on the quality of their products. As such, the Group has designed a comprehensive quality control programme since the commencement of its operation with a view to meeting the quality standard and fulfilling the specifications of the products as set out by the customers. As at the Latest Practicable Date, there were a total of 217 staff under the production department responsible for the quality assurance checks along the production line whilst 20 staff under the quality assurance department are responsible for final inspections for the Group's products carried out in the FC Factory and the Processing Factory. Production staff under the production department and the quality assurance staff under the quality assurance department do not have specific professional qualification of quality assurance as the in-line product checks is relatively simple. The quality assurance staff under the quality assurance department have an average of five years of experience in quality assurance. Two of the staff have more than 13 years of experience in quality assurance industry.

As at the Latest Practicable Date, there were 2 staff responsible for weight matching; 41 staff responsible for the inspection of all the knitted garments after the knitting process; 17 staff responsible for intermediate inspection for all the linked garments; 18 staff responsible for another intermediate inspection of the handstitched garments; 3 staff responsible for semi-product inspection; 4 staff responsible for the checking of dirts of all washed garments after the laundering process; 18 staff responsible for measurement inspection; and 114 staff responsible for the final quality assurance check before the process of hangtags attaching. On top of these 217 staff responsible for in-line quality checks, there were 20 staff who are responsible for quality check after every major production procedure. Some of the customers even assigns its own staff to do the inspections at the production factories of the Group for their orders.

The Directors believe that high quality of the products also requires stable and quality supply of raw materials. All the products of the Group are made of yarn, which is knitting materials blended with wool, cotton, lycra, etc. The major composition of yarn used for the Group's products is wool. The Group procures its principal raw materials and other accessories such as buttons and zippers in Italy and the PRC.

To ensure the quality of the raw materials used for the Group's production and the knitted or linked garments produced by the subcontractors, as at the Latest Practicable Date, 47 staff were responsible for the quality assurance checks for the yarn in terms of its degree of tenacity, the colour and size prior to the production and the inspection of the prototypes of each product before production commences. Those raw materials or semi-finished garments that fail to meet the standards may be returned to the suppliers or subcontractors for fixing or replacement.

During the Track Record Period, the defect rates of the purchases together with the production process were maintained at less than 2%. Under comprehensive quality control programme carried out by the quality assurance division stationed in the FC Factory and the Processing Factory, the average defect rate of each order from the subcontractors was maintained at approximately 1% for the three years ended 31 December 2010. Despite compensation of approximately HK$0.2 million, HK$2.3 million, HK$0.7 million and HK$26,000 having been paid to certain customers of the Group during the Track Record Period mainly due to late delivery or defects of the products, the Directors do not consider such incidents have any material impact to the relationship with these customers as none of these customers have ceased to place orders to the Group as a result of such incidents.

The Group has obtained the Most Valuable Partner Award presented by Jones Apparel Group USA Inc. in 2005. The Directors believe that the Group's commitment to high quality and reliability helps strengthen the recognition and trust among its customers which subsequently translate to increased orders with the Group.

Most of the recognised apparel customers of the Group carry out a comprehensive quality assurance review of the products, and impose code of conduct on the Group and enter into compliance agreements with the Group. Revenue attributable to the customers who have entered into compliance agreements with the Group amounted to 93.4%, 96.2%, 99.2% and 99.3% of total revenue of the Group for the three year ended 31 December 2010 and four months ended 30 April 2011. One of compliance agreements which the Group entered into with one of the top five customers requires the Group to, among others,

(i) comply with all the applicable laws, rules and regulations including but not limited to those laws relating to wage and hour, labour, health and safety, emigration, discrimination and environmental laws and regulations;

(ii) comply with the terms and conditions set out by the customer in the compliance agreement including but not limited to prohibition of the Group from selling, transferring or otherwise disposing of any goods manufactured for the customer according to the order by the Group, including any overruns, seconds (goods that are wearable with minimal flaws), thirds (goods with defects conspicuous to the average customer) or rejected goods etc.; and

(iii) strictly maintain the confidentiality of any and all confidential and propriety information and/ or data of the customer including but not limited to the customer's trade secrets, know-how, inventions, processes, products, products ideas, sketches, specifications and designs and etc.

It is also stipulated that any breach of the compliance agreement by the Group shall entitle the customer to terminate or cancel any and/or all purchase orders with the Group and/or to reject and return any or all goods for a full refund.

Among the customers who have entered into compliance agreements with the Group, three of them have conducted periodic audits on the Group and the Processing Factory, representing 93.4%, 96.2%, 99.2% and 99.3% of all the customers in terms of revenue during the three years ended 31 December 2010 and four months ended 30 April 2011 respectively. During the audits, they were provided with information regarding the business, operation, employees related and other information (including payroll) which they requested. In addition, the Company has specifically notified such customers which were therefore aware of the shortfall in contributions to social insurance and housing provident fund by the Group and the Processing Factory and the title defects of the Processing Factory and the FC Factory. The other customers who entered into the compliance agreements with the Group have not requested to conduct audit on the Group or the Processing Factory or find it necessary to request the Group to provide them with information on those aspects. Although the Group has not specifically notified such other customers of the shortfall in contributions to social insurance and housing provident fund and the title defects relating to the production factories of the Group, the Directors believe that such shortfall situation and title defects are common in the Guangdong Province and the Group's customers would be aware of the same.

Regarding the non-compliances of Fung Ching, 東莞市社會保障局常平分局 (the Changping Branch Office of Dongguan Social Security Department*), being the appropriate and competent government authority to discharge an entity's liability relating to social insurance contributions as confirmed by the PRC Legal Advisers, has issued a letter confirming that Fung Ching has complied with all national and local laws relating to social insurance during the Track Record Period and agreed to discharge all possible liabilities (including all possible social insurance fees payable by Fung Ching) before 1 October 2006 (which was due to the fact that Fung Ching only obtained its social insurance registration certificates on 25 September 2006) and all possible penalty. Also, the shortfall in housing provident fund contribution mainly arises because some of the employees of Fung Ching were unwilling to participate in the housing provident fund schemes.

Regarding the non-compliances of the Processing Factory, the shortfall in contribution mainly arises because some of its employees were also unwilling to participate in the social insurance contributions and housing provident fund. In addition, neither the Group nor the Processing Factory has received any notification or directive from the relevant authorities for payment of shortfall in contributions to social insurance and housing provident fund, and no penalty has been imposed on the Group or the Processing Factory on such shortfall in contribution. As advised by the PRC Legal Advisers, the title defects relating to the FC Factory and the Processing Factory arose from non-compliances by the relevant lessors only. By reason of the aforesaid, the Group is of the view that it is not in breach of any compliance agreements it entered into with its customers. None of these customers has raised any issue about breach of the compliance agreements with the Group during the Track Record Period and up to the Latest Practicable Date. The Group does not foresee any adverse consequences arising from any of such issues on the compliance agreements.

Such relevant customer and other customers of the Group have not imposed any restrictions on the Group's engagement of subcontractors in the production of their products. Some of the customers pay regular on-site quality check for the products produced under their brand names. Normally after the on-site visit, the customers would issue written performance reports which list out the visual defect rate, measurement defect rate and other parameters for assessing the performance and quality of the products produced by the Group. Some of the customers would assess the overall performance of the Group in terms of costs, quality and service and delivery and give an overall ranking or marks for the Group. To further enhance the quality checking of the products, one of the major customers has assigned its staff to station in the Processing Factory to perform daily on-site quality check for the products produced under its brands in the Processing Factory whereas another major customer of the Group has assigned its staff to perform on-site quality checks for the products produced under its brands in the Processing Factory frequently.

The Group has adopted the following quality control and assurance procedures to ensure that its products satisfy the high quality standards required by its customers.

Weight matching (磅片)	To ensure there is no material loss or wastage of yarn during the knitting production process, some of the quality assurance staff carry out weight checking process to reconcile the weight of knitted garments with the weight of yarn available for the production of knitted garments.
Inspection for knitted garments (查片)	After the weight checking of the knitted garments, the quality assurance staff perform comprehensive inspection for all the knitted garments in terms of tenacity and number of stitches.
Inspection for linked garments	As linking procedure is one of the most complicated procedures which require high degree of skill and experience, full and comprehensive quality assurance inspection is required so as to ensure that the joint between two major pieces of knitted garments are linked meticulously.
Inspection for handstitched garments	The quality assurance staff inspect the linked garments to check whether there are some redundant strands of yarn remaining in the linked garments after handstitching.
Semi-product inspection	All the semi-products are examined by the quality assurance staff under specific lamps to check (i) whether the semi-finished garments are knitted, linked and handstitched in accordance with the specifications of the customers; and (ii) whether they are free from major defects.
Inspection for washed garments	After the laundering procedure, the quality assurance staff perform inspection for the washed garments to ensure that the washed garments are free from dirts.

Measurement inspection	After laundering and steaming procedures, the size of the garments may be affected. The quality assurance staff measure the size of the garments to ensure that all the garments comply with the standard of the size in respect of collar, sleeve, front, back and other parts of the clothes as specified by the customers.
Inspection for finished products	The finished products are examined carefully and are inspected on a sampling basis and tested by means of measuring equipment as to its texture before warehousing and packaging/shipment. Some of the key customers of the Group assign their own quality assurance staff to station in the Processing Factory to carry out quality inspection.

As at the Latest Practicable Date, there were 217 production staff under the production department responsible for the quality check after every major production procedure such as knitting, linking, handstitching, laundering, steaming and label sewing whilst there were 20 staff under the quality assurance department responsible for final inspection of the products. Some customers of the Group also assign their own quality assurance staff to station in the Processing Factory and the FC Factory so as to assure the quality of finished products. The quality assurance staff perform full inspection for almost all the garments manufactured in each major production procedure and sampling check in the final check of the finished products. If the defective products are more than 2.5% of each bulk of finished products, the whole bulk of the finished products will be inspected again.

To ensure quality delivery of the knitwear products to the customers, the Group has adopted prudent approach to secure its supply of the major raw materials, i.e. yarn. Leveraging on the experience and network in the apparel industry, the Group would negotiate with the suppliers in person so as to obtain a stable supply of yarn at a competitive price with short delivery lead time and favourable payment terms. The Directors believe that the stable supply of yarn contributes to the success of the Group's business.

PROCUREMENT AND SUPPLIES

Since the commencement of the business, the Group has established strong and close relationships with its suppliers. For the three years ended 31 December 2010 and four months ended 30 April 2011, the Group purchased its raw materials from 274, 277, 292 and 147 suppliers all over the world respectively. As at the Latest Practicable Date, the Group's business relationships with its top five suppliers ranged from 3 to 11 years. The following tables set out the number of years of relationships between the Group and the top five suppliers and their respective percentages of purchases of the Group during the Trade Record Period:

Top five suppliers of the Group for the year ended 31 December 2008:

Name of Supplier	Years of relationship as at the Latest Practicable Date	Approximate percentage of purchase
Supplier A	3	17.1%
Supplier B	7	14.5%
Supplier C	3	11.9%
Supplier D	11	5.1%
Supplier E	7	4.5%

Top five suppliers of the Group for the year ended 31 December 2009:

Name of Supplier	Years of relationship as at the Latest Practicable Date	Approximate percentage of purchase
Supplier E	7	15.5%
Supplier F	6	11.8%
Supplier G	3	7.8%
Supplier H	11	7.2%
Supplier B	7	6.9%

Top five suppliers of the Group for the year ended 31 December 2010:

Name of Supplier	Years of relationship as at the Latest Practicable Date	Approximate percentage of purchase
Supplier B	7	20.8%
Supplier A	3	10.2%
Supplier I	6	8.3%
Supplier G	3	3.5%
Supplier J	3	3.0%

Top five suppliers of the Group for the four months ended 30 April 2011:

Name of Supplier	Years of relationship as at the Latest Practicable Date	Approximate percentage of purchase
Supplier I	6	19.1%
Supplier K	11	9.9%
Supplier B	7	9.8%
Supplier J	3	8.3%
Supplier A	3	5.7%

The Directors confirm that none of the Company, Directors, their respective associates or Shareholders who owns more than 5% of the entire issued share capital of the Company immediately following the completion of the [●] and [●], had any interests in any of the five largest suppliers of the Group during the Track Record Period.

Late delivery is common in the knitwear manufacturing business due to various factors. Most knitwear is manufactured from April to August in time for the Fall/Winter seasons in the northern hemisphere. The push to get large volume produced within this short period of time puts pressure on every aspect of production. The main reason for delays that occur at this point in the process is when suppliers are slow to deliver because the major raw materials involved (i.e. yarn) may contain specified color or pattern which are mostly tailored made for each order. The same process/methods/technical conditions may not give the same result every time. These challenges faced by the suppliers of yarn may finally require corrections and re-processing that can delay the delivery to the Group. If the suppliers do not deliver the raw materials in a timely fashion, the entire order of the Group with the customers will be delayed. Late delivery of orders to the customers will result in additional charges from air shipment of finished products borne by the Group. The Group may be able to agree with suppliers for a settlement proposal and recoup some of the additional charges from or reduce payment of compensation to the customers due to late delivery on a case-by-case basis.

Yarn

The major raw materials used for the production of knitwear products are yarn, which are mainly blended with different materials such as cotton, wool, lycra, etc. The Group purchases yarn from suppliers all over the world. During the Track Record Period, the Group purchased approximately 1.8 million pounds, 1.8 million pounds, 1.9 million pounds and 0.4 million pounds of yarn at an average cost of approximately HK$61.4, HK$50.3, HK$53.5 and HK$61.8 per pound respectively. The credit terms offered to the Group by its suppliers range from cash on delivery to 45 days.

Based on the orders received from the customers, the Group normally orders the raw materials with the suppliers by purchase order setting out the pricing and the quantity of yarn. During the Track Record Period, the purchase of yarn accounted for approximately 87.1%, 78.7%, 77.8% and 82.0% respectively of its total cost of procurement.

During the Track Record Period, the top five yarn suppliers collectively accounted for approximately 53.1%, 46.1%, 45.3% and 52.8% respectively of the total procurement cost of the Group. The largest yarn supplier accounted for approximately 17.1%, 15.5%, 20.8% and 19.1% respectively of the total procurement cost of the Group respectively for the Track Record Period.

In view of the large number of yarn suppliers having established stable and strong relationships with the Group, during the Track Record Period, the Group has not encountered any difficulties in the procurement of yarn from suppliers in Italy and the PRC. The Directors also do not foresee that the Group will encounter any difficulty in the sourcing of the raw materials in future.

As the raw materials of yarn such as cotton and wool fluctuate in price and supply throughout the years of operations of the Group, the Directors consider that it is not flexible to enter into any long-term contract with the suppliers in respect of the yarn procurement, which is in line with the industry practice.

Others

Apart from yarn, the Group also requires other raw materials including buttons, zippers, packing materials, labels and other accessories for its production. These raw materials accounted for approximately 12.9%, 21.3%, 22.2% and 18.0% of the total procurement cost of the Group respectively for the Track Record Period.

Total procurement cost

For Track Record Period, the largest supplier of the Group accounted for approximately 17.1%, 15.5%, 20.8% and 19.1% of its total procurement cost respectively. During the Track Record Period, the five largest suppliers of yarn and other raw materials including buttons, zippers, packing materials, labels and other accessories purchased by the Group accounted for approximately 53.1%, 49.2%, 45.8% and 52.8% of the Group's total procurement cost respectively.

The Directors confirmed that, none of the Directors, their respective associates or Shareholder who owns more than 5% of the entire issued share capital of the Company immediately following the completion of the [●] and [●], had any interest in any of the five largest suppliers of the Group for the three years ended 31 December 2010.

During the Track Record Period, approximately 63.4%, 80.1%, 83.6% and 85.6% of the procurement cost of the Group were paid in U.S. dollars, approximately 32.9%, 15.4%, 13.2% and 11.6% of that were paid in HK dollars, and approximately 0.3%, 1.3%, 2.5% and 1.0% of that were paid in Renminbi. During the Track Record Period, the Group did not engage in any hedging activities with respect to possible fluctuations in the raw materials prices because over 95% of the procurement cost of the Group were paid in either U.S. dollar or HK dollar. During the same periods, all the procurement cost of the Group were settled by cash on delivery to 45 days and no purchase rebate was given by its suppliers.

The yarn section of the purchasing department will communicate regularly with the yarn suppliers in respect of the specifications for each order especially when the design and development department of the Group devises specific composition of yarn for the new collection of knitwear products. This section works closely with the yarn suppliers to develop such new types of yarn for its production and also devises pre-set specifications and delivery schedules for the suppliers to comply with and carries out quality assurance check of yarn including size, degree of tenacity and degree of shrinkage after washing and steaming.

The Group selects the suppliers based on a number of criteria including but not limited to the capacity of the suppliers, the delivery lead time and pricing of raw materials. The Group may return the whole bulk of raw materials if the defective products reach 5%. During the Track Record Period, the Group did not experience any material return of defective products.

For the three years ended 31 December 2010, the Group did not encounter any material shortage in the supply of the required raw materials from its suppliers. In view of the stable working relationships with numerous suppliers and the availability of the raw materials, the Directors do not consider that any change or intervention in the Group's business relationships with a particular supplier will have any material adverse impact on the Group's business. During the Track Record Period, the Group did not enter into any long-term contracts with any of its suppliers.

INVENTORY CONTROL

In light of the price fluctuations of the raw materials used for the Group's production, the Group adopts cost-saving inventory control policy in the warehouses of raw materials in both FC Factory and the Processing Factory to avoid excessive procurement, wastage and remains of yarn and to maintain the flexibility to adapt to the changes in the price of raw materials.

As each customer may specify its own preference of yarn to be used for their knitwear products, the Group, in most cases, sources the raw materials and the accessories from the suppliers for production after the customers confirm their orders and their specifications in respect of the blending of yarn, the types of accessories, the labels and hangtags.

All the raw materials including yarn and accessories are monitored by the yarn department and accessories department from time to time so as to assure enough supply of raw materials for the production. Leveraging on the inventory record, the Group is capable of retrieving the raw materials from the warehouses accordingly. The inventory control policy adopted by the Group mainly focus on pre-production inventory, which requires its sample department and yarn section of the purchasing department to ensure the accuracy of the amount of yarn required for the production of the knitwear products per order. Under the inventory control policy, the yarn section of the purchasing department has to check the type and amount of yarn remaining in the warehouse before making any procurement order to the suppliers, and the suppliers are also required to deliver the exact amount of yarn required for production. If the excessive yarn provided by the suppliers is more than 3% or any other percentage as determined on a case by case basis, the procurement department has a discretion right to return the excessive yarn to the suppliers so as to reduce the excessive yarn remaining in the warehouse after the production.

The Group also adopts strict control procedures in respect of the use of raw materials, in particular the use of yarn. The Group encourages the production planning department to estimate the amount of yarn to be used for a particular order. If the production planning department found that the existing production or changes of order would result in an excessive amount of yarn, it would inform the sales and merchandising department to secure more sales orders using up the excessive yarn or sell such remaining yarn to yarn traders and/or knitwear manufacturers.

The production planning department also informs the management whenever excessive yarn remains after finishing the customers' orders.

The Directors believe that inventory control policy can facilitate adequate and efficient application of the working capital and reduce the risk of excessive inventory obsolescence. The yarn division of the Group is responsible for monitoring the inventory levels of the Group.

The Group generally places purchase orders of raw materials after the customer's order is confirmed. The specifications of raw materials are designated by the customers in the purchase order. Generally, raw materials are purchased with an average lead time of approximately 4 to 8 weeks. As at the Latest Practicable Date, raw materials were largely related to yarn purchased with confirmed customers' orders.

During the Track Record Period, no provision for obsolete or slow-moving inventories were made.

COMPETITION

As disclosed in the section headed "Industry Overview" in this document, there are a large number of local and overseas market players in the fashion and apparel industry. As the entry barriers of the apparel market is relatively low in terms of the low initial capital commitment and no requirement of advanced technology, the competition in the apparel industry is keen and there are a large number of competitors of different scales of production scattering in the market. However, as the Group positions itself as a knitwear manufacturer mainly targeting at international apparel brand owners with their products sold around the world, the Group does not have to face competition from the small-scale manufacturers which mainly focus on the small-to-medium sized apparel makers or brand owners. In addition, as the Group has established a very strong, loyal and long-term relationship with some of the premium apparel brand owners and the quality standard adopted by such premium apparel brand owners is relatively higher than other apparel owners, it is relatively difficult for other manufacturers to compete with the Group for the customers of such positioning in the apparel market.

The Directors believe that the Group not only competes favourably with its competitors in terms of its product quality, timely delivery and competitive market price, but also competes favorably with its competitors by its design and development capability and the value-added services including the market research, yarn sourcing, design brainstorming, production budgeting, etc. Accordingly, the Directors believe that the Group has established a strong market presence in the apparel industry in USA and the European countries.

INTERNAL CONTROL

Tax compliance

In order to ensure the compliance with all relevant tax rules and regulations in jurisdictions where it operates, Hong Kong and the PRC, the Group has implemented strict internal control measures with reference to all relevant tax and regulations of Hong Kong and the PRC.

The Group has appointed tax representative or consultant to handle its tax matters in Hong Kong and PRC. In addition, the Chief Finance Officer of the Group is responsible for monitoring compliance with the relevant tax rules and regulations, reviewing the tax filings prior to the submission to the relevant government authorities in Hong Kong and PRC and reviewing the latest rules and regulations from the website of the relevant tax authorities regularly as well as advice from the tax representative/ consultant. If there are any relevant amendments and updates, the Chief Financial Officer will also provide a briefing to responsible staff for their better understanding thereof.

Compliance with all relevant rules and regulations

In order to ensure the Group's ongoing compliance with all relevant rules and regulations of Hong Kong and the PRC, the Group has appointed independent professional advisers including certified public accountants, tax consultants and legal advisers on a case by case basis. In addition, the Group also engaged Mr. Kwok Wai Kwong as the compliance officer of the Group. Mr. Kwok has more than 10 years experience in handling compliance issues and is also responsible for liasing with customers in respect of periodic compliance audits and any enquiries that may be raised by the potential and existing customers relating to compliance matters. He is now responsible for (i) managing daily compliance matters relating to customers' compliance requirements as set out in the compliance agreements and periodic compliance audits; and (ii) liasing with the PRC government bureaux including, but not limited to, labour bureau, custom and environmental bureau for periodic reporting and compliance in accordance with the direction of the Board and the advice of the independent professional advisers. Other compliance issues relating to the Group including, but not limited to, tax compliance, financial reporting to government departments and company secretarial matters are handled by Mr. Lee Sze Wai, the chief financial officer and the company secretary of the Group in accordance with the direction of the Board and advice of the independent professional advisers. If there are any relevant amendments and updates on latest rules and regulations, the chief financial officer and the compliance officer will provide a briefing to responsible department and staff for their better understanding thereof. The Group also requests its directors, senior management and staff to attend various seminars and training classes on relevant rules and regulations organised by the government bureau and professional organisations notwithstanding that the Group does not provide in-house regular training for its employees.

Compliance with the code of conduct

To ensure compliance with the code of conduct as set out in the compliance agreements entered into between the key customers and the Group relating to, among other things, environmental, labour, health, safety and confidentially aspects and selling, transferring or disposal of goods manufactured for the customers on an ongoing basis:

(i) the Group's staff are required to sign on the declaration of the understanding of the Group's code of conduct on the commencement date of employment and are required to follow the rules set out in the employee handbook which sets out code of conduct relating to environmental, labour, health, safety and confidentiality aspects;

(ii) the department head would monitor the performance of each staff, and may impose penalty or terminate the employment if the staff breach the code of conduct;

(iii) the Group has established environmental and work safety policies in accordance with the requirements of the key customers and the relevant rules and regulations of the PRC to ensure the working environment and production flow of the Group complied with the aforesaid requirements. Foremen have been appointed to monitor the daily production and logistic arrangements between the Processing Factory and the subcontractors for goods manufactured for the customers;

(iv) the Group has established relevant policies and internal control procedures to safeguard the confidential and propriety information of the customers. Labels and tags of the customers are kept by the Group and the label sewing procedures would only take place at the Processing Factory;

(v) Mr. Kwok Wai Kwong, as the compliance officer of the Group, will manage matters relating to customers' compliance requirements as set out in compliance agreements; and

(vi) all the staff including the chief financial officer and compliance officer are encouraged to attend the seminars organised by the government departments or professional organisations in relation to the updated rules and regulations in the textile industry.

INSURANCE

The Group maintains insurance coverage for its stocks stored within its premises, stocks (including raw materials and WIPs) in transit within Hong Kong and Guangdong Province, the PRC. It also maintains insurance policies against loss or damage to its office, business interruption; and for employees compensation and medical insurance for its staff in Hong Kong. The Group maintains insurance coverage against risk of loss or damage to the assets in the PRC, including but not limited to FC Factory, the Processing Factory, machinery and equipments installed at FC Factory and the Processing Factory. The Group has contributed to the social insurance policies which cover medical expenses and compensation arising from work-related injuries as referred above.

In addition, pursuant to the insurance policy taken out by Fung Ching with Ping An of China Property Insurance Company, Fung Ching maintains insurance coverage from 22 October 2010 to 21 October 2011 for its 140 sets of computerised knitting machines with the appraised value and the assured value of approximately RMB32,059,366.67 which is in line with the industry practice.

The Directors consider that the coverage of these insurance policies is adequate and is in line with the industry practice.

ENVIRONMENTAL PROTECTION

During the Track Record Period, the cost of compliance with applicable environmental laws and regulations were approximately HK$199,000, HK$197,000, HK$201,000 and HK$178,000 respectively which was mainly attributable to the cost of waste disposal. The Group expects such cost going forward would be around the same range as that incurred during the Track Record Period.

As confirmed by the confirmation letter issued by 東莞市環境保護局常市分局 (Changping Branch of Dongguan Environmental Protection Department*) on 25 February 2011, the operation of Fung Ching has complied with the rules and regulations relating to environmental protection. Fung Ching has not experienced any environmental protection incidents during the Track Record Period.

As confirmed by the confirmation letter issued by 東莞市環境保護局大朗分局 (Dalang Branch of Dongguan Environmental Protection Department*) on 3 March 2011, the operation of Processing Factory has complied with the rules and regulations relating to environment. The Processing Factory has not experienced any complaints relating to environment protection incidents during the Track Record Period.

SAFETY MATTERS

The Group has established procedures to provide its workers with a safe and healthy working environment by setting out work safety rules in the staff manual of the Processing Factory and the FC Factory for the production staff to follow. To prevent the occurrence of accidents, the staff manual stipulated that, among other things, the production staff (i) shall wear suitable clothing for work; (ii) shall operate the production machines according to the machine manuals; (iii) shall follow detailed procedures as set out for each of the production procedures; (iv) shall not smoke or drink or eat in the production premises; (v) shall not place the production chemicals recklessly; (vi) shall not operate the production machines without supervisor's approval or use fire control equipment; and (vii) shall not keep any leftover materials or flawed end-products. Relevant supervisors in each key production procedure are responsible for monitoring the performance of the production staff and their compliance with relevant work safety rules as set out above. During the Track Record Period and up to the Latest Practicable Date, there is no material breach of work safety rules by the production staff of the Processing Factory or the FC Factory.

The Group has no significant incidents and accidents in relation to workers' safety and non-compliance with the applicable laws and regulations relevant to the working safety and health issues during the Track Record Period.

INTELLECTUAL PROPERTY RIGHTS

The Group has registered www.fornton.com as its domain name, details of which are set out in the paragraph headed "Intellectual property rights" in Appendix V to this document.

The Group has not registered any trademark as at the Latest Practicable Date.

PRODUCT LIABILITY

During the Track Record Period, all of the Group's knitwear products were sold to overseas market including the apparel markets in the USA and Europe. The knitwear products manufactured by the Group is subject to compliance with the USA and EU regulatory standards including but not limited to product safety controls. In addition, certain compliance agreements entered into between the Group and its customers also contain provisions requiring the Group and its subcontractors to comply with all applicable product safety laws, rules and regulations and with all product safety standards and to hold such customers harmless against claims for damages of third parties arising from the nature of the knitwear products manufactured by the Group.

Having considered (i) the general practice in the apparel manufacturing industry and the insurance products available for the USA and the EU markets; and (ii) it is not mandatory for the Group's products to maintain any product liability insurance in the overseas markets, the Group currently does not maintain any product liability insurance. As confirmed by the PRC legal advisers, there is no mandatory requirement under the PRC laws for the Group to maintain any product liability insurance for the products under the Processing Agreements.

The Directors confirm that there was no claim or payment relating to product liability or any product recall during the Track Record Period and up to the Latest Practicable Date.

TAXATION

Hong Kong

The Group is carrying on its business in Hong Kong and is subject to Hong Kong Profits Tax in respect of its profits arising in or derived from its business in Hong Kong. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

During the Track Record Period, the Group conducted part of its garment manufacturing business by entering into the Processing Agreements with the PRC Processing Party and the Processing Factory in the PRC. Pursuant to the Departmental Interpretation and Practice Note No. 21 ("DIPN 21") issued by the Inland Revenue Department of Hong Kong ("IRD"), the IRD usually accepts that, in case where a Hong Kong manufacturing business enters into a processing arrangement with a PRC entity where the production process is carried out at the processing factory established by the Hong Kong manufacturing business situated in the PRC, profits from the sale of goods that were manufactured by the aforementioned processing factory can be apportioned on a 50:50 basis and 50% of the chargeable profits so apportioned can be treated as non-taxable in Hong Kong.

Pursuant to the criteria laid down in the DIPN 21 and the application pursuant to section 70A of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) that covered the Track Record Period, Nice Regent applied to revise the prior year's tax assessments. After the appointment of Tax Consultant for the tax review of the Group on 4 November 2010, the Tax Consultant recommended the Group to claim for the apportionment of profits on a 50 : 50 basis since the year of assessment 1995/1996. In March 2011, Nice Regent has submitted an application to the IRD to claim for the apportionment of profits on a 50:50 basis for the years of assessment from 1995/96 to 2009/10 and lodged an application to revise the tax loss notifications for the years of assessment from 1995/96 to

2004/05. The IRD was still in the process of reviewing the application as at the Latest Practicable Date and issued an enquiry letter requesting for additional information on 28 July 2011. Pending the outcome and review of the application, full provision of Hong Kong profits tax and tax payments on a without 50:50 basis had been made in the Accountants' Report and to the IRD respectively.

The Directors consider the Processing Agreements signed by Nice Regent comply with the requirements of the DIPN 21 for the tax assessments of Nice Regent and thus Nice Regent should be eligible to claim for an apportionment of its profits on a 50:50 basis because (i) the Processing Agreements under 來料加工安排 (the contract processing arrangement*) had obtained the necessary governmental approvals; and (ii) the operation model of Nice Regent complies with the requirements as stipulated in the DIPN 21. Based on the above, the [●], the Tax Consultant and the Reporting Accountants concur with the Directors' view in this regard.

As confirmed by the Directors, each of Fornton Holding, Fornton Knitting and Nice Regent has made proper tax reporting to the IRD for the relevant years of assessment 2007/2008, 2008/2009 and 2009/2010 as appropriate.

PRC

As confirmed by the PRC Legal Advisers, the Group is subject to PRC taxation in respect of its garment manufacturing business conducted through Fung Ching but it is not subject to any PRC taxation in respect of the processing and assembling arrangement with the Processing Factory.

Fung Ching

According to 國務院關於實施企業所得稅過渡優惠政策的通知 (Circular of the State Council on Implementation of the Transitional Preferential Policies on Enterprise Income Tax*) (Guo Fa [2007] No. 39) promulgated by the State Council of the PRC on 26 December 2007, with effect from 1 January 2008, enterprises enjoying "2-year exemption and 3-year half payment", "5-year exemption and 5-year half payment" of enterprise income tax and other preferential treatments in the form of periodic tax reduction and exemptions may, after the implementation of the EIT Law, continue to enjoy the relevant preferential treatments under the preferential measures and the time period granted under the previous tax regulations, administrative regulations and relevant documents until the expiration of the said time period. However, the preferential time period shall be counted from 2008 if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits.

According to 關於東莞豐正針織有限公司的涉稅情況說明 (Clarification in respect of the taxation involvement of Dongguan Fung Ching Knitting Company Limited*) issued by 東莞市國家稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal State Tax Bureau*) on 25 February 2011, Fung Ching is not subject to the EIT for the years 2008 and 2009 and is subject to half payment of the EIT at 12.5% for the years from 2010 to 2012.

According to 出口貨物退(免)稅管理辦法(試行) (Measures Governing Tax Refund (Exemption) of Exported Goods (For Trial Implementation)*) promulgated by 國家稅務總局 (the State Administration of Taxation*) on 16 March 2005, for the goods exported by an exporter on its own or by entrustment, the exporter may, after the declaration of goods to customs for export and the financial settlement for sales, make a report to the local state taxation bureau for the approval of refund or exemption of its value-added tax (VAT) or consumption tax upon production of relevant certificates. The exporter shall complete the Declaration Form of Tax Refund (Exemption) of Exported Goods and apply to the local state taxation bureau for going through the formalities for tax refund (exemption) of exported goods.

東莞市國家稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal State Tax Bureau*) has on 27 August 2007 issued the Declaration Form of Tax Refund (Exemption) of Exported Goods and Exporting Enterprise Tax Refund Registration Certificate to Fung Ching.

According to the 關於東莞豐正針織有限公司納稅及有關稅務情況的證明 (Certificate in respect of the Tax Payments and related matters of Dongguan Fung Ching Knitting Company Limited*) issued by 東莞市國家稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal State Tax Bureau*) on 25 February 2011, Fung Ching has settled all tax payments in a timely manner and there is no outstanding, accrued or failure to settle any tax payments as at 31 December 2010. There is no finding by 東莞市國家稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal State Tax Bureau) that there is any material breach involving taxation by Fung Ching.

According to the 納稅證明 (Certificate in respect of the Tax Payments*) (Dong Di Shui Chang Zheng Zi [2011] No. 005) issued by 東莞市地方稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal Local Tax Bureau) on 25 February 2011, Fung Ching was fined (i) RMB2,000 on 23 October 2006, (ii) RMB40 on 19 March 2008 and (iii) RMB80 on 20 February 2009, all for late tax filings. The PRC Legal Advisers are of the view that (i) as Fung Ching has paid the penalty for its late tax filings as required by the competent tax bureau, there is no material adverse potential consequences on the Group as a result of the late tax filings by Fung Ching; and (ii) 東莞市地方稅務局常平稅務分局 (Changping branch of Dongguan Local Tax Bureau*) and 東莞市國家稅務局常平稅務分局 (Changping branch of Dongguan Municipal State Tax Bureau*) are the appropriate and competent authorities to issue confirmations regarding Fung Ching's compliance with relevant tax regulations. Save as mentioned herein, there is no finding by 東莞市地方稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal Local Tax Bureau*) that there is any material breach involving taxation by Fung Ching during the period from 1 April 2006 to 31 January 2011.

Processing Factory

According to the 關於東莞大朗巷尾豐臨針織廠納稅及有關稅務情況的證明 (Certificate in respect of the Tax Payments and related matters of Dongguan Da Lang Xiang Wei Fornton Knitting Factory*) issued by 東莞市國家稅務局大朗稅務分局 (Da Lang Sub-Branch of the Dongguan Municipal State Tax Bureau*) on 1 March 2011, Processing Factory has completed all tax filings in a timely manner and there is no finding of any material breach. All tax payments payable by Processing Factory have been fully settled as at 31 December 2010.

According to the 東莞市地方稅務局涉稅證明 (Certificate in respect of the Tax Payments of Dongguan Municipal Local Tax Bureau*) (Dong Di Shui Zheng Zi No. 2011000009) issued by 東莞市地方稅務局大朗稅務分局 (Da Lang Sub-Branch of the Dongguan Municipal Local Tax Bureau) on 2 March 2011, Processing Factory is not involved in any material breach involving taxation as at 2 March 2011.

LEGAL COMPLIANCES

The Directors confirm that, as at the Latest Practicable Date and save as disclosed in the paragraphs headed "Non-compliances with relevant rules and regulations by Fung Ching in respect of the FC Factory" and "Non-compliances with relevant rules and regulations by the Processing Factory" under this section, the Group has complied with all applicable laws and regulations in the jurisdiction in which it operates and has obtained all the necessary permits, certificates and licences for its operations during the Track Record Period.

LITIGATION

In February 2007, a writ was issued against Fornton Knitting claiming for an aggregate amount of approximately HK$1,118,000 being the costs of yarn sold and delivered to Fornton Knitting together with interest thereon, of which approximately HK$851,000 representing the amount of trade receivable claimed by the plaintiff has already been included in the Group's trade payables. No provision was made for the potential liability of approximately HK$267,000 representing the amount of interest claimed by the plaintiff as the case is still pending judgment being handed down and only the worst case scenario will require the Group to pay such additional claim. Fornton Knitting filed a defence and counterclaim to the said writ that Fornton Knitting is not liable to pay the costs claimed as the yarn delivered was defective and that the plaintiff had refused to amend such defects. Fornton Knitting further claimed for an unliquidated amount of loss and damages arising from the defective yarn supplied by the plaintiff. As at the Latest Practicable Date, trial had already taken place and the case is currently pending judgment being handed down.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group.

BOARD OF DIRECTORS

Executive Directors

Ms. Wong Kan Kan Kandy, aged 48, was appointed as executive Director and chairperson of the Board on 11 October 2011. She is one of the co-founders of the Group. Madam Wong has over 27 years of experience in the management and operation of textile and knitting business. In 1983, Madam Wong joined a textile company owned by her father until 1993 when she resigned from such company and in late 1993/early 1994 commenced her own business together with her husband, Mr. Yam, by setting up Fornton Holdings. To cope with the business development and to establish a manufacturing arm in the PRC, Madam Wong invited her brother and husband to set up Nice Regent in 1995 and entered into the 3rd Supplemental Processing Agreement in the same year. Madam Wong is primarily responsible for the overall corporate strategic planning and business development of the Group. Madam Wong obtained her bachelor degree of Arts from University of Toronto majoring in Commerce in November 1983. Madam Wong is the wife of Mr. Yam.

Mr. Wong Tat Wai Derek, aged 41, was appointed as executive Director on 11 October 2011 and he is one of the co-founders of the Group. Mr. Wong has over 16 years of experience in the management and operation of textile and knitting business. Since the establishment of Nice Regent in 1995 and entering into the 3rd Supplemental Processing Agreement in the same year, Mr. Wong has been involved in the overall corporate strategic planning and daily management of manufacturing of the Group. Mr. Wong is the brother of Madam Wong.

Mr. Yam Tak Cheung, aged 49, was appointed as executive Director on 11 October 2011 and he is one of the co-founders of the Group. Mr. Yam is primarily responsible for the overall corporate strategic planning of the Group. He is a professional investor and has investments in a number of companies whose shares are listed on the [●]. IAM, a company wholly owned by Mr. Yam, was interested in 50% of a company which in turn held 55.13% shareholding interest in China Motion Telecom International Limited (Stock Code: 0989) as at the Latest Practicable Date. Mr. Yam obtained his bachelor degree of Science from the University of Toronto majoring in Computer Science and Actuarial Science in June 1983. Mr. Yam is the husband of Madam Wong.

Independent non-executive Directors

Mr. Wang Wei Hung Andrew, age 55, was appointed as independent non-executive Director on 11 October 2011. He was admitted as Solicitor of the High Court in Hong Kong in January 1982 and has over 29 years of experience in the legal sector. Mr. Wang was the Head of Legal and Compliance Department of China Development Bank Corporation Hong Kong Branch. Before joining China Development Bank Corporation Hong Kong Branch in 2010, he was the Partner of the Finance & Projects Group of DLA Piper Hong Kong between the period from 2006 to 2009. Mr. Wang is also a Notary Public since 1992. Actively involved in Public Sector Advisory and Statutory Bodies, he is Chairman of Residential Care Homes (Elderly Persons) Appeal Board, Chairman of Appeal Tribunal Panel (Buildings), Member of Notaries Public Disciplinary Tribunal Panel. Mr. Wang is a Fellow of the Hong Kong Institute of Directors and was appointed as an arbitrator of the International Economic and Trade Arbitration Commission. In 2005, he was invited by former President Bill Clinton to participate as a business leader at the Clinton Global Initiative held in New York 2005.

Mr. Cheng Dickson, aged 42, was appointed as independent non-executive Director on [●]. Mr. Cheng is currently an executive Director of Mizuho Securities Asia Limited. Prior thereto, he worked in JP Morgan between 1994 and 1996. In December 1995, he was promoted to TCRM Professional in its Global Markets Department. Between 1996 and 2000, Mr. Cheng worked in the Securities Lending Department of The Bank of New York, Hong Kong Branch. From 2000 to 2002, he worked in BOC International Holdings Limited and before he left BOC International Holdings Limited, he was the Assistant Vice President of BOCI Asia Limited. On 19 August 2002, he joined ICEA Capital Limited and worked in ICEA Capital Limited until 31 October 2005 when he was a Senior Vice President of its Investment Banking Division. Mr. Cheng then joined Mitsubishi UFJ Securities (HK) Capital, Limited in November 2005 and he worked there until June 2008 when he was an executive director of its Capital Markets Department in the Investment Banking Division. Mr. Cheng has more than 15 years of experience in investment banking industry. Mr. Cheng obtained his bachelor degree of art in University of Toronto majoring in economics in June 1994 and master degree of applied finance in Macquarie University in Australia in November 2000.

Mr. Sin Ka Man, aged 43, was appointed as independent non-executive Director on [●]. Mr. Sin has over 19 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He became an associate member of The Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in January 1996, a fellow member of the Association of Chartered Certified Accountants in July 1997 and a certified practising accountant of the CPA Australia in December 2000. Mr. Sin obtained his bachelor degree in Social Sciences from the University of Hong Kong in December 1989, master degree in Finance from the University of Strathclyde, the United Kingdom in November 1993 and a master degree in Accounting from Curtin University of Technology, Australia in June 1998.

Mr. Sin is currently the company secretary of Huayu Expressway Group Limited (Stock Code: 1823), a company listed on the [●]. Mr. Sin serves as an independent non-executive director of China Motion Telecom International Limited (Stock Code: 0989), Chinese People Holdings Company Limited (Stock Code: 0681), PNG Resources Holdings Limited (formerly known as LeRoi Holdings Limited) (Stock Code: 0221), Xtep International Holdings Limited (Stock Code: 1368), all of which are currently listed on the [●] and Sino Haijing Holdings Limited (Stock Code: 8065), which is currently listed on the Growth Enterprise Market of the [●].

Mr. Sin was a director of Smart-player.com Limited, a private company incorporated in Hong Kong providing internet services until his resignation on 31 August 2002. Mr. Sin played a role of financial controller of Smart-player.com Limited in charge of day-to-day accounting without substantive decision-making. On 2 April 2003, a winding-up petition was filed against Smart-player.com Limited and Smart-player.com Limited was resolved to wind up on 28 May 2003 under the High Court Winding Up Order No. 380 (2003). To the best knowledge of Mr. Sin and based on the public record available with regard to the winding-up petition of Smart-player.com Limited, it was a compulsory winding-up petition filed by the creditor of Smart-player.com Limited for its failure to settle the indebtedness owed by Smart-player.com Limited to its creditor. Mr. Sin confirmed that he was not involved in or related to the winding-up petition of Smart-player.com Limited. No evidence has been brought to the attention of the Directors that the integrity and competence of Mr. Sin as the director of the Company has ever been questioned. The Directors believe that Mr. Sin is appropriate to serve as an independent non-executive Director of the Company under [●] and the Company will benefit from his professional and directorship experience for a number of both public and private companies.

Details on the aggregate emoluments and benefits in kind payable to each of the executive Directors and non-executive Directors are set out in the paragraph headed "Further information about Directors, management and staff" in appendix V to this document.

Save as disclosed above, each of the Directors (i) did not hold other positions in the Company or members of the Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of the Company as at the Latest Practicable Date; and (iii) did not hold any other directorship in any listed companies in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save for the interests in the Shares of Mr. Yam, Madam Wong and Mr. Wong which are disclosed in the section headed "Interests and/or short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations" and the paragraph headed "Further information about Directors, management and staff" in appendix V to this document, each of the Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, to the best of the Directors' knowledge information and belief having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to [●] as at the Latest Practicable Date.

SENIOR MANAGEMENT

Senior management of the Group

Mr. Lee Sze Wai, aged 42, was appointed as chief financial officer and the company secretary of the Group in October 2010 who is responsible for finance management, taxation and compliance. Mr. Lee received his Bachelor Degree of Commerce majoring in accountancy from University of Wollongong in Australia in May 1992. He became a member of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in January 2000, a certified practising accountant of the Australian Society of Certified Practising Accountants in September 1998, and has more than 19 years of experience in accounting and finance. Mr. Lee worked at Ernst & Young from 1992 to 2000 specializing in assurance and business advisory services and was the chief financial officer of various companies from 2000 to 2006. Mr. Lee serves as an independent non-executive director of Credit China Holdings Limited (Stock Code: 8207). Since 2006 and before joining the Group, he has been the director of a CPA firm specializing in assurance and business advisory services.

Mr. Ng Wing Sang, aged 46, was appointed as business development director of the Group in October 2010 who is responsible for leading the Group's sales and merchandising department. Mr. Ng has worked at H&M Hennes & Mauritz (Far East) Ltd. from 1990 to 1997. He then held numerous sales and marketing and general management positions at various knitwear companies including Crystal Sweater Ltd. and Peninsula Knitters Ltd. Mr. Ng obtained his Master's Degree in Business Administration from The Hong Kong Polytechnic University in December 2005.

Ms. Tang Wing Zee, aged 36, was appointed as purchasing manager of the Group in July 2010 who is responsible for purchasing. Before joining the Group, Ms. Tang has worked in apparel industry for more than 13 years specializing in yarn sourcing and purchasing in various countries. Since 2004, she has been the yarn manager of one of the leading sweater manufacturers in Hong Kong and mainly responsible for sourcing and purchasing works. Ms. Tang was graduated in City University of Hong Kong majoring in translation and interpretation in November 1997 and obtained a Postgraduate Diploma in Administrative and Information Management from Napier University of Edinburgh in January 2006.

Ms. Ng Wing Yan, aged 30, design and development manager, has joined the Group since April 2008. Ms. Ng is primarily heading the Design and Development department of the Group and responsible for product design and development. She has seven years of experience in the fashion and knitwear industry. Prior to joining the Group, Ms. Ng has held fashion designer position in various companies including knitting manufacturing companies and ladies wear retailer. Ms. Ng obtained her Bachelor Degree of Arts (Honors) majoring in Fashion and Textile from The Hong Kong Polytechnic University in October 2009.

Senior management of the Processing Factory and the FC Factory

Mr. Lin Qing Bing, aged 37, was appointed as manager of production department in the Processing Factory in December 2004. Mr. Lin is responsible for leading the Group's production in the Processing Factory. Mr. Lin has over 17 years of experience in the knitwear manufacturing industry. Prior to joining the Group, Mr. Lin has held numerous production positions (including supervisor of production department) at various knitwear manufacturing factories.

Mr. Liu Shi Fa, aged 38, was appointed as supervisor of production department in FC Factory in July 2009. Mr. Liu is responsible for leading the Group's production department in FC Factory. Mr. Liu has over 21 years of experience in the knitwear manufacturing industry. Prior to joining the Group, Mr. Liu has held numerous production positions (including production technical director) at various knitwear companies.

Ms. Zhang Yue Fei, aged 43, was appointed as manager of quality assurance department of the Group in June 2009. Ms. Zhang is primarily heading the quality assurance department of the Group. Ms. Zhang has over 26 years of experience in the knitwear manufacturing industry. Prior to joining the Group, Ms. Zhang has held numerous quality assurance positions (including manager of quality assurance department) at various knitwear companies.

Note: The salary of employees of the Processing Factory (including the abovementioned senior management) forms part of the staff costs incurred by the Processing Factory which are reimbursed by the Group by way of payment of Processing Fees. The senior management of the Processing Factory are selected and employed by the Processing Factory. However, if the Group is not satisfied with their performance, the Group can discuss with and request the PRC Processing Party to replace with suitable and appropriate personnel.

Save as disclosed above, each of the senior management of the Group did not hold any other directorship in any listed companies in the three years prior to the Latest Practicable Date.

COMPANY SECRETARY

Mr. Lee Sze Wai is the company secretary of the Company. Details of the qualifications and experience of Mr. Lee are set out in the paragraph headed "Senior management" in this section.

HUMAN RESOURCES

Overview of number of staff

As at the Latest Practicable Date, the Group had a total of 294 permanent full-time staff based in Hong Kong and the PRC. In addition, as at the Latest Practicable Date, 946 staffs were employed by the Processing Factory in connection with the manufacture of the Group's products.

Set out below is a breakdown of employees of the Group and the Processing Factory as at the Latest Practicable Date:

	Number of full-time staff employed by the Group		Number of staff employed by Processing Factory
	HK headquarter	**FC Factory**	*(Note)*
Administration	16	28	92
Sales and merchandising	11	—	27
Design and development	2	—	3
Quality assurance	—	—	20
Accounting and finance	7	2	15
Production	1	227	789
Total	37	257	946

Note: These staff are employed by the Processing Factory in the PRC and are not employees of the Group.

Relationship with staff

Each of the Group and the Processing Factory has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel during the Track Record Period.

The Directors consider that the Group and the Processing Factory have maintained good relationship with their respective employees. The Directors confirm that the Group has complied with all applicable labour laws and regulations in the PRC (save for the non-compliances relating to the FC Factory and the Processing Factory as disclosed in section headed "Business") and have not employed any child labour.

Staff benefits

The Group operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries.

The Group has also complied with the Employee Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and has taken out insurance to cover and to provide for the payment of compensation to its employees in Hong Kong who are injured in the course of their employment. In addition, the Group has also taken out medical insurance program for all its full-time permanent employees in Hong Kong after completion of 3 months of service and will take out travel insurance for its employees in Hong Kong who are required to travel abroad in the course of their employment.

The Directors consider that the coverage of these insurance policies is adequate and is in line with the industry practice.

The Group has not fully complied with the regulatory requirements in respect of the social insurance coverage for its employees, details of which are set out in the paragraphs headed "Non-compliances with relevant rules and regulations by Fung Ching in respect of the FC Factory" and "Non-compliances with relevant rules and regulations by the Processing Factory" under the section headed "Business".

Apart from the social insurance coverage, the Processing Factory has maintained insurance for injury arising from accidents for a majority of its employees (i.e. 720 employees) whilst the FC Factory has not maintained any types of insurance.

Remuneration policy

The remuneration package the Group offers to its employees includes salary, bonuses and other cash subsidies. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. The Group has designed an annual review system to assess the performance of its employees, which forms the basis of its decisions with respect to salary raises, bonuses and promotions.

AUDIT COMMITTEE

The Company established an audit committee on [●] with written terms of reference in line which are with the code provisions of the Code on Corporate Governance Practices set out in appendix 14 to [●]. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently has three members comprising Mr. Wang Wei Hung Andrew, Mr. Cheng Dickson and Mr. Sin Ka Man, all being independent non-executive Directors. The chairman of the audit committee is Mr. Sin Ka Man.

REMUNERATION COMMITTEE

The Company established a remuneration committee on [●] with written terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices set out in appendix 14 to [●]. The remuneration committee shall make recommendations to the Board on, among other matters, the Company's policy and structure for the remuneration of all Directors and senior management and shall be delegated by the Board the responsibility to determine on behalf of the Board the specific remuneration packages for all executive Directors and senior management. It has four members comprising Mr. Wang Wei Hung Andrew, Mr. Cheng Dickson, Mr. Sin Ka Man and Ms. Wong Kan Kan, Kandy. The chairman of the remuneration committee is Mr. Cheng Dickson.

NOMINATION COMMITTEE

The Company established a nomination committee on [●] with written terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices set out in appendix 14 to the [●] Rules. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and the management of Board succession. It has four members comprising Mr. Wang Wei Hung Andrew, Mr. Cheng Dickson, Mr. Sin Ka Man and Ms. Wong Kan Kan, Kandy. The chairman of the nomination committee is Mr. Wang Wei Hung Andrew.

INDEPENDENCE FROM [●]

Having considered the following factors, the Directors believe that the Group is capable of carrying on the Group's business independently from the [●] and their associates after the [●].

Management and administrative independence

The Board consists of six Directors, of whom three are executive Directors and the remaining three are independent non-executive Directors. Each of the Directors is aware of his/her fiduciary duties as a Director of the Company which requires, among other things, that he/she acts for the benefit and in the best interests of the Company and does not allow any conflict between his/her duties as a director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant meetings of the Board in respect of such transactions and shall not be counted in the quorum. In addition, the Company has a senior management team to make the business decisions independently. The three independent non-executive Directors will also bring independent judgment to the decision-making process of the Board.

Most members of the senior management of the Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in the business of the Group. The responsibilities of the senior management team of the Group include dealing with operational financial research and inventory management matters, making general capital expenditure decisions and the daily implementation of the business strategy of the Group. This ensures the independence of the daily management and operations of the Group. Further details are set out in the section headed "Directors and Senior Management" in this document.

Clear delineation of businesses

IAM, Ever Rosy and Premier Wise, all being [●], were incorporated under the laws of BVI and are investment holding companies. As such, the Directors are of the view that the nature of the business activities carried on by the Group on the one hand, and those carried on by IAM, Ever Rosy and Premier Wise respectively on the other, are clearly distinct and that there is a clear delineation between the business of the Group and the business of IAM, Ever Rosy and Premier Wise respectively.

Financial independence

The Company has an independent financial system and makes financial decisions according to the Group's own business needs. The Directors confirm that any guarantee, loan or pledge provided by the [●] in favour of the Group will be released or settled, as the case may be, before the [●]. As at the Latest Practicable Date, there is no guarantee, loan or pledge provided to the [●]. The Directors believe that the Company is capable of obtaining financing from Independent Third Parties, if necessary, without reliance on the [●] after the [●]. Therefore, the Group will be financially independent from the [●] after the [●].

Having considered the above reasons, the Directors are of the view that the Company is capable of carrying on its own business independently from the [●] (including any associate thereof) after the [●].

Operational independence

Although Mr. Yam, Madam Wong and Mr. Wong, each an executive Director, is the [●] of IAM, Ever Rosy and Premier Wise respectively, the Group has its own management team that operates independently from each of IAM, Ever Rosy and Premier Wise. In particularly, the Group has independent access to sources of supplies or raw materials for the production of the Group's products, as well as independent access to the Group's customers.

The Directors consider that the Group's operations do not depend on the [●] because (i) there is no competing business between the Group and any of the [●] and (ii) the Group will not be relying on any guarantee provided by any of the [●] in respect of bank borrowings nor have the Group been given any guarantee for the benefit for the benefit of any of the [●] upon [●].

On the basis of the matters disclosed in this section, the Directors believe that the Group is capable of carrying on its business independently of the [●] and their respective associates. The Group, the [●] and their associates did not have any common or shared facilities or resources during the Track Record Period and up to the Latest Practicable Date.

DEED OF NON-COMPETITION

Subject to the terms therein, the [●] as covenantors entered into a deed of non-competition in favour of the Company dated [●] (the "Deed of non-competition"), pursuant to which each of the [●] has undertaken to the Company (for itself and for the benefit of its subsidiaries) that effective upon [●], it/he/she will not, and will procure that its/his/her associates will not (a) either on its/his/her own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly be interested or involved or engaged in or acquire or hold an interest (in each case whether as a shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the Group's business in Hong Kong and any other country or jurisdiction to which the Group provides its services and/or in which any member of the Group carries on business mentioned above from time to time (the "Restricted Activity") or (b) either on its/his/her own account or in conjunction with or on behalf of any person, firm or company, or as a principal, shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise, directly or indirectly, solicit, interfere with or endeavour to entice away from any member in the Group any person, firm, company or organisation who to its/his/her knowledge is now or has been a client, supplier or employee of any member in the Group.

Each of the [●] has also undertaken that (a) it/he/she will promptly provide the Company, in writing with any relevant information in respect of any new business opportunity which competes or may compete with the existing and future business of the Group which it/he/she or its/his/her associates may have knowledge for the Company to assess such new business opportunity, (b) it/he/she will, and will procure its/his/her associates with material interests to, abstain from voting at all meetings of Directors and holders of Shares on resolutions involving the exercise or non-exercise of the right of the Group to participate in the relevant Restricted Activity, (c) it/he/she will provide all information reasonably required or necessary to the Company for the enforcement of the Deed of non-competition and (d) it/he/she will make an annual declaration in favour of the Company on whether it/he/her has fully complied with its/his/her obligations under the Deed of non-competition, for inclusion in the annual reports of the Company in the manner consistent with the principles of making voluntary disclosures in the section headed "Corporate governance report" of the annual reports prepared in accordance with the requirements of the [●] from time to time.

The Deed of non-competition and the rights and obligations thereunder are conditional and will take effect immediately upon [●]. The obligations of the [●] under the Deed of non-competition will remain in effect until:

(a) the date on which the Shares cease to be [●]; or

(b) the [●] and their respective associates and/or successors, individually and/or collectively, cease to own 30% or more of the then issued share capital of the Company directly or indirectly or cease to be deemed as [●] of the Company (within the meaning defined in the [●] Rules from time to time),

whichever occurs first.

Each of the [●] also represented and warranted to the Company in the Deed of non-competition that neither of it/he/she nor any of its/his/her associates is currently interested, involved or engaging, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Activity otherwise than through the Group.

As the [●] have given non-competition undertakings in favour of the Company, and none of them have interests in other businesses that compete or are likely to compete with the business of the Group, the Directors are of the view that they are capable of carrying on the Group's business independently of the [●] following the [●].

None of the [●] and the Directors has interests in any business which competes or is likely to compete with the business of the Company.

NON-DISPOSAL UNDERTAKINGS

Pursuant to [●], each of the [●] has undertaken to the [●] that he/she/it shall not and shall procure that the relevant registered holder(s) shall not:

(a) in the period commencing from the date of this document and ending on the date which is six months from the [●] dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this document to be the beneficial owner; or

(b) in the period of six months commencing from the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances the [●] would, either individually or taken together with the others, cease to be a [●].

Each of the [●] has also undertaken to the Company and the [●] that, within a period commencing from the date of this document and ending on the date which is 12 months from the [●], he/she/it will:

(i) when he/she/it pledges or charges any Shares beneficially owned by him/her/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and

(ii) when he/she/it receives any indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

The Company must inform the [●] as soon as it has been informed of such matters and must forthwith publish an announcement giving details of the same in accordance with the requirements of [●].

CORPORATE GOVERNANCE MEASURES

The Company has adopted the Code on Corporate Governance Practices (the "Code") in Appendix 14 to [●]. The Code sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders. The Company will state in its interim and annual report whether it has complied with the Code, and will provide details of, and reasons for, any deviations from it in the Corporate Governance Report which will be included in its annual report. The Company is also required to comply with the [●] Rules which provides, among other matters, prohibitions on directors' [●] in securities and protection of minority shareholders' rights. The Directors are therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between the Group and the [●], and to protect minority shareholders' rights after the [●].

Furthermore, following the [●], the Directors will be required to comply with provisions under the [●] Rules and certain matters are required to be reviewed by the independent non-executive Directors. The Directors are of the view that the significant proportion of independent non-executive Directors comprising the Board should enhance the Company's overall corporate governance standards.

In addition to the safeguards mentioned above, an annual review will be performed by the independent non-executive Directors with regard to the information provided by the [●] (the "Annual Review"). After the Annual Review, the independent non-executive Directors will decide whether to exercise the Company's rights in respect of the compliance and enforcement of the Deed of non-competition. The Company will disclose all decisions on the matters pertaining to the Annual Review either through the annual report, or by way of announcements to the public. The [●] will provide all information necessary for the Annual Review and the enforcement of the Deed of non-competition, after which they will make an annual declaration on compliance and the manner of compliance with the Deed of non-competition in the annual reports of the Company.

SHARE CAPITAL

The authorised and issued share capital of the Company are as follows:

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.01 each	100,000,000
Issued and to be issued, fully paid or credited as fully paid:		
10,000,000	Shares in issue as at the Latest Practicable Date	100,000

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

OVERVIEW

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

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

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

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

BASIS OF PRESENTATION

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

FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE GROUP

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

Demand for the Group's products

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

Price fluctuation of raw materials

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

Cost of labour and availability of labour

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

Seasonal fluctuation

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

Competition

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

SIGNIFICANT ACCOUNTING POLICIES

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

Accounting policies

Plant and equipment

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

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

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

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

Inventories

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

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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

Revenue recognition

(i) *Sale of goods*

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

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

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

(ii) *Interest income*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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

Derivative financial instruments

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

Key sources of estimation uncertainty

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

Depreciation of plant and equipment

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

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

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

PRINCIPAL COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME

Turnover

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

The primary source of revenue during the Track Record Period was derived from the sales of womenswear, representing approximately 89.4%, 91.8%, 91.6% and 89.5% of the Group's turnover for each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively. The following table sets out the Group's turnover by product categories for the periods indicated:

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

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

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

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

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

Notes:

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

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

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

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

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

Cost of sales

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

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

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

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

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

Processing Fees

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

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

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

Gross profit and gross profit margin

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

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

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

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

Other operating income

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

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

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

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

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

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

Selling and distribution expenses

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

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

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

Administrative expenses

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

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

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

Finance costs

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

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

Income tax expense/(credit)

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

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

Turnover

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

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

Womenswear

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

Menswear

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

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

Cost of sales

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

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

- an increase of approximately 13.3% in production overheads; and
- a decrease of approximately 42.6% in direct labour costs.

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

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

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

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

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

Gross profit and gross profit margin

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

Womenswear

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

Menswear

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

Other operating income

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

Selling and distribution costs

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

Administrative expenses

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

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

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

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

Loss from operations

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

Finance costs

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

Income tax credit

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

Loss for the period

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

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

YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATIONS

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

Turnover

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

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

Womenswear

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

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

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

Menswear

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

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

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

Kidswear

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

Cost of sales

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

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

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

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

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

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

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

Gross profit and gross profit margin

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

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

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

Womenswear

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

Menswear

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

Other operating income

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

Selling and distribution costs

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

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

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

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

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

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

Administrative expenses

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

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

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

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

Profit from operations

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

Finance costs

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

Income tax expenses

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

Profit for the year

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

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

Turnover

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

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

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

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

Womenswear

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

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

Menswear

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

Kidswear

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

Cost of sales

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

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

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

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

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

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

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

Gross profit and gross profit margin

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

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

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

Womenswear

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

Menswear

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

Kidswear

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

Other operating income

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

Selling and distribution costs

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

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

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

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

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

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

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

Administrative expenses

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

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

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

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

Profit from operations

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

Finance costs

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

Income tax expenses

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

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

Profit for the year

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net cash generated from/(used in) operating activities	24,056	15,893	40,908	(45,086)	(16,272)
Net cash (used in)/generated from investing activities	(4,649)	(5,183)	(49,667)	8,053	(8,719)
Net cash (used in)/generated from financing activities	(11,044)	(1,235)	6,766	32,521	16,341
Net increase/(decrease) in cash and cash equivalents	8,363	9,475	(1,993)	(4,512)	(8,650)
Cash and cash equivalents at the beginning of the year	34,851	43,550	52,997	52,997	51,562
Effect on foreign exchange rates changes	336	(28)	558	39	314
Cash and cash equivalents at the end of the year	43,550	52,997	51,562	48,524	43,226

Cash flows from operating activities

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

Four months ended 30 April 2011

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

Year ended 31 December 2010

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

Year ended 31 December 2009

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

Year ended 31 December 2008

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

Cash flows from investing activities

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

Four months ended 30 April 2011

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

Year ended 31 December 2010

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

Year ended 31 December 2009

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

Year ended 31 December 2008

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

Cash flows from financing activities

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

Four months ended 30 April 2011

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

Year ended 31 December 2010

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

Year ended 31 December 2009

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

Year ended 31 December 2008

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

Net Current Assets

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

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

As at 30 April 2011, the Group had net current assets of approximately HK$59,296,000. The components of the Group's current assets as at such date included inventories of approximately HK$42,137,000, trade and other receivables of approximately HK$36,073,000 and pledged bank deposits and bank balances and cash of approximately HK$46,226,000. The key components of the current liabilities included trade and other payables of approximately HK$34,347,000, bank borrowings of approximately HK$21,788,000 and dividends payables of approximately HK$4,830,000.

The Group's net working capital decreased during the four months ended 30 April 2011. The Group's net current assets position decreased from approximately HK$68,152,000 as at 31 December 2010 to HK$59,296,000, which was primarily attributable to (i) an increase in bank borrowings of approximately HK$12,233,000 due to the increase in import loan for additional inventory stock in April

2011 for the peak production season from April to June 2011; and (ii) a decrease in trade and other receivables of approximately HK$13,156,000 which was in line with the decrease in sales due to the seasonal fluctuation. These amounts were partially offset by an increase in inventories of approximately HK$19,022,000 as explained above.

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

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

CONTRACTUAL OBLIGATIONS

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

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

Capital commitments

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

HISTORICAL CAPITAL EXPENDITURE

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

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

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

Forward contracts

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

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

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

INVENTORY ANALYSIS

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

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

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

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

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

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

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

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

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

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

TRADE RECEIVABLES ANALYSIS

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

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

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

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

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

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

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

Notes:

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

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

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

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

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

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

TRADE PAYABLES ANALYSIS

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

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

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

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

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

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

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

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

Notes:

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

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

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

ANALYSIS OF OTHER SELECTED FINANCIAL POSITION ITEMS

Prepayments and other receivables

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

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

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

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

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

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

Other payables, VAT payables and receipt in advance

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

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

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

OTHER MAJOR FINANCIAL RATIOS ANALYSIS

Current ratio

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

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

Quick ratio

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

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

Return on equity

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

Notes:

1. Net profit represents the profit for the year.

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

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

Return on total assets

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

Note:

1. Net profit represents the profit for the year.

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

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

OFF-BALANCE SHEET COMMITMENTS

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

INDEBTEDNESS

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

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

Bank Borrowings

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

WORKING CAPITAL

The Directors is of the opinion that, taking into consideration the Group's internal resources, the existing available credit facilities of the Group and the estimated net [●] from the [●], the Group has sufficient working capital for the its present requirements, for at least the next 12 months from the date of this document.

Gearing Ratios

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

CONTINGENT LIABILITIES

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

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

CAPITAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital risk management

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

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

Financial risk management

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

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

SENSITIVITY ANALYSIS

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

For the four months ended 30 April 2011

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

For the year ended 31 December 2010

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

For the year ended 31 December 2009

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

For the year ended 31 December 2008

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

DIVIDEND POLICY

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

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

RELATED PARTY TRANSACTIONS

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

DISTRIBUTABLE RESERVES

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

PROPERTY INTERESTS AND PROPERTY VALUATION

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

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

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

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

SUBSEQUENT EVENTS

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

1. Reorganisation

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

NO MATERIAL ADVERSE CHANGE

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

FUTURE PLANS

In spite of the long-established relationships with international apparel brand owners based in USA and the European countries for more than 10 years, the Group intends to ride on the growing demand of consumption driven by the expanding population of the style-conscious class in the PRC to attract potential customers such as the international apparel groups which labels are recognised but under-penetrated in the PRC.

The table below sets out the expansion plan to be carried out by the Group:

Details of expansion plan	Status of expansion	Date of expected commencement of production/use	Total investment as at the Latest Practicable Date	Expected time of completion of payment	Estimated total investment and sources of funding
To establish a production plant with the total production capacity of approximately 4,188,000 pieces per year in Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC, to substitute the existing production premises of the FC Factory and expand the production scale of the Group to two complete production lines comprising the existing one in the Processing Factory and another in the new production factory.	The Group will apply to the relevant government authorities for all applicable licenses and permits. The application process will commence in the fourth quarter of 2011 and the construction is expected to commence in the fourth quarter of 2011	By the fourth quarter of 2012	HK$13.9 million (acquisition of the industrial land)	By the fourth quarter of 2013	RMB48,650,000 [●] working capital
Acquisition of production machinery and office equipment for the new production plan.	Acquisition order for production machinery and office equipment will be placed in the fourth quarter of 2012	End of fourth quarter of 2012	Nil	By the fourth quarter of 2012	RMB2,320,000 [●] working capital
Acquisition of 220 sets of computerised knitting machines for existing production factories.	Acquisition order of 120 sets of computerised knitting machines was placed in the first quarter of 2011 and they will be delivered in the second quarter of 2011	By the second quarter of 2011	HK$34,368,000	Monthly instalment and final instalment in the fourth quarter of 2016	HK$34,368,000 [●] working capital
	100 sets of computerized knitting machines are expected to be acquired in the second quarter of 2012	End of third quarter of 2012	Nil	Monthly instalment and final instalment in the third quarter of 2017	HK$29,000,000 [●] working capital
New ERP System to integrate different functions of the Group including but not limited to sales, purchase, production, warehouse and finance.	Service contract is expected to be signed in November 2011	By the fourth quarter of 2012	HK$0.6 million	By the fourth quarter of 2012	HK$3,000,000 [●] working capital
Enhancing sales and merchandising, and design and development capabilities including participating in fashion exhibitions twice a year, designing company brochure, acquiring computer software for design and development and hiring additional staff.	Participating in fashion exhibitions is planned in the third quarter of 2011, first and third quarter of 2012 and first quarter of 2013	By the third quarter of 2011, first and third quarter of 2012 and first quarter of 2013	Nil	By the third quarter of 2011, first and third quarter of 2012 and first quarter of 2013	HK$2,000,000 [●] working capital
	Company brochure is planned to be designed in the fourth quarter of 2011	By the fourth quarter of 2011	Nil	By the fourth quarter of 2011	HK$300,000 [●] workinng capital
	Computer software for design and development is planned to be acquired in the fourth quarter of 2011	By end of the fourth quarter of 2011	Nil	By end of the fourth quarter of 2011	HK$180,000 [●] workinng capital

As the Group's expansion plan exposes the Group to a new business environment and a new market with different culture, there is no assurance that the Group's expansion plan will be realised or such expansion plan will be carried out as planned or will materialise as scheduled. Details of the future plans and the use of [●] are set out in this section. The risks involved in the implementation of the Group's future plans are set out in the section headed "Risk factors" in this document.

FUTURE PLANS

Save as disclosed above, the paragraph headed "Business strategies" in the section headed "Business" in this document also sets out the detailed description of the business strategy of the Group. The Group also intends to finance capital expenditures through internal cash resources, bank borrowings and, if necessary, debt financings. For more details of the Group's capital expenditures, please see the paragraph headed "Historical capital expenditure" in the section headed "Financial information" in this document.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the reporting accountants of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

[●]

The Directors
Fornton Group Limited
[●] Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") regarding Fornton Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2010 and the four months ended 30 April 2011 (the "Track Record Period") for inclusion in the document of the Company dated [●] (the "Document").

The Company was incorporated in Bermuda on 13 April 2011 as an exempted company with limited liability under the Bermuda Companies Act. Pursuant to a group reorganisation as detailed in the section headed "History, Reorganisation and Group Structure" and in Appendix V "Statutory and General Information" to the document (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group on 11 October 2011.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	**Indirect**	
Wide Reach Limited ("Wide Reach")	British Virgin Islands ("BVI") 29 September 2010	Ordinary shares United States dollar ("US$") 3,000	100%	—	Investment holding
Fornton Knitting Company Limited 豐臨針織有限公司 ("Fornton Knitting")	Hong Kong 1 February 1994	Ordinary shares HK$10,000,000	—	100%	Trading of knitwear
Nice Regent Industries Limited 毅俊實業有限公司 ("Nice Regent")	Hong Kong 21 February 1995	Ordinary shares HK$10,000	—	100%	Sub-contracting of knitted garments
Fornton Holdings Company Limited 豐臨控股有限公司 ("Fornton Holdings")	Hong Kong 16 December 1993	Ordinary shares HK$10,000	—	100%	Trading of knitwear and investment holding
Dongguan Fung Ching Knitting Company Limited ("Fung Ching")* (東莞豐正針織有限公司)#	The People's Republic of China ("PRC") 28 February 2006	Registered capital US$8,000,000	—	100%	Manufacturing and trading of knitwear

Wholly foreign-owned enterprise established in the PRC.

* *The English name is for identification purpose only.*

All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company since its date of incorporation as there is no such statutory requirement, and the Company has not carried out any business, other than those transactions relating to the Reorganisation.

No audited financial statements have been prepared for Wide Reach since its date of incorporation as there is no statutory requirement. For the purpose of this report, we have, however, reviewed the relevant transactions of these companies since their respective dates of incorporation to 30 April 2011 and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in the Financial Information.

The statutory financial statements of Fung Ching for the three years ended 31 December 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC.

The statutory financial statements of Fornton Knitting, Nice Regent and Fornton Holdings for the three years ended 31 December 2010 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The statutory auditors of the above subsidiaries during the Track Record Period are as follows:

Name of subsidiary	Periods covered	Certified Public Accountants
Fornton Knitting	Year ended 31 December 2008	Yu How Yuen & Company
	Year ended 31 December 2009	Yu How Yuen & Company
	Year ended 31 December 2010	SHINEWING (HK) CPA Limited ("SHINEWING")
Nice Regent	Year ended 31 December 2008	Yu How Yuen & Company
	Year ended 31 December 2009	Yu How Yuen & Company
	Year ended 31 December 2010	SHINEWING
Fornton Holdings	Year ended 31 December 2008	SHINEWING
	Year ended 31 December 2009	SHINEWING
	Year ended 31 December 2010	SHINEWING
Fung Ching	Year ended 31 December 2008	Dongguan Shi Zhong Lian Accountants Company Limited* (東莞市中聯會計師事務所有限公司)
	Year ended 31 December 2009	Guangdong Zhong Cheng An Tai Accounts Company Limited* (廣東中誠安泰會計師事務所有限公司)
	Year ended 31 December 2010	Guangdong Zhong Cheng An Tai Accounts Company Limited* (廣東中誠安泰會計師事務所有限公司)

* *Certified Public Accountants registered in the PRC and the English name is for identification purpose only.*

BASIS FOR PREPARATION

For the purpose of this report, the directors of the Company have prepared the financial statements of the Company and the consolidated financial statements of Wide Reach for the Track Record Period, which were prepared in accordance with HKFRSs issued by the HKICPA (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing for the Track Record Period.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements on the basis set out in Note 1 of Section A below, with no adjustments thereto, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the [●] of Securities on the [●] (the "[●] Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the [●] Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error. Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Documents and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 April 2011.

OPINION

In our opinion, for the purpose of this report, and on the basis of preparation set out in Note of Section A below, the Financial Information gives a true and fair view of the Group's combined results and combined cash flows for the Track Record Period, and of the state of affairs of the Company as at 30 April 2011 and of the Group as at 31 December 2008, 2009 and 2010 and 30 April 2011.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited financial information of the Group comprising the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the four months ended 30 April 2010, together with notes thereto (the "April 2010 Financial Information"), for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the April 2010 Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the April 2010 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the 30 April 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with Hong Kong Financial Reporting Standards.

A. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

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

Combined Statements of Financial Position

		The Group				The Company
		At 31 December			At 30 April	At 30 April
		2008	2009	2010	2011	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets						
Plant and equipment	*17*	7,831	5,650	15,319	19,815	—
Deposit paid for acquisition of land use rights	*18*	10,047	10,005	—	—	—
Prepaid lease payment	*19*	—	—	13,293	13,841	—
Deferred taxation	*30*	—	—	—	595	—
		17,878	15,655	28,612	34,251	—
Current assets						
Inventories	*20*	20,299	23,760	23,115	42,137	—
Prepaid lease payment	*19*	—	—	302	315	—
Trade and other receivables	*21*	52,981	57,308	49,229	36,073	—
Amounts due from related companies	*22*	4,704	13,867	—	—	—
Amount due from a director	*23*	3,757	1,887	—	—	—
Derivative financial instruments	*24*	—	—	—	812	—
Pledged bank deposits	*25*	4,485	1,622	—	3,000	—
Bank balances and cash	*25*	43,550	52,997	51,562	43,226	—
		129,776	151,441	124,208	125,563	—
Current liabilities						
Trade and other payables	*26*	41,545	41,781	40,050	34,347	—
Dividends payables		—	—	4,830	4,830	—
Amounts due to directors	*27*	12,725	12,440	—	3,569	—
Bank borrowings	*28*	1,023	498	9,555	21,788	—
Obligations under finance leases — due within one year	*29*	300	210	210	210	—
Income tax payables		2,630	722	1,411	1,523	—
		58,223	55,651	56,056	66,267	—
Net current assets		71,553	95,790	68,152	59,296	—
Total assets less current liabilities		89,431	111,445	96,764	93,547	—
Non-current liabilities						
Bank borrowings	*28*	—	—	32,466	33,232	—
Obligations under finance leases — due after one year	*29*	803	578	368	298	—
Deferred taxation	*30*	79	91	151	26	—
		882	669	32,985	33,556	—
		88,549	110,776	63,779	59,991	—
Capital and reserves						
Share capital	*31*	2,000	2,000	2,023	2,023	—
Reserves	*32*	86,549	108,776	61,756	57,968	—
		88,549	110,776	63,779	59,991	—

Combined Statements of Changes In Equity

	Share capital	Merger reserve	Exchange translation reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	—	—	340	59,072	59,412
Capital injection	2,000	—	—	—	2,000
Total comprehensive income for the year	—	—	153	26,984	27,137
At 31 December 2008	2,000	—	493	86,056	88,549
Total comprehensive income for the year	—	—	20	22,207	22,227
At 31 December 2009	2,000	—	513	108,263	110,776
Total comprehensive (expenses) income for the year	—	—	(264)	27,967	27,703
Dividends *(Note 16)*	—	—	—	(74,700)	(74,700)
Arising from Reorganisation *(Note 32)*	23	8,020	—	(8,043)	—
At 31 December 2010	2,023	8,020	249	53,487	63,779
Total comprehensive income (expenses) for the period	—	—	373	(4,161)	(3,788)
At 30 April 2011	2,023	8,020	622	49,326	59,991

	Share capital	Merger reserve	Exchange translation reserve	Retained earnings	Total
(Unaudited)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	2,000	—	513	108,263	110,776
Total comprehensive income (expenses) for the period	—	—	39	(3,153)	(3,114)
Dividends	—	—	—	(1,700)	(1,700)
At 30 April 2010	2,000	—	552	103,410	105,962

Combined Statements of Cash Flow

	Year ended 31 December			Four months ended 30 April	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
OPERATING ACTIVITIES					
Profit (loss) before taxation	35,456	26,981	33,577	(3,860)	(4,716)
Adjustments for:					
Change in fair value of derivative financial instruments	—	—	—	—	(812)
Depreciation of plant and equipment	3,122	3,001	2,897	795	1,466
Amortisation of prepaid lease payment	—	—	—	—	107
Finance costs	441	110	407	15	157
Gain on disposal of plant and equipment	—	—	(190)	—	(290)
Interest income	(426)	(151)	(417)	(32)	(61)
Loss on written off of plant and equipment	—	59	51	—	25
Operating cashflows before movements in working capital	38,593	30,000	36,325	(3,082)	(4,124)
(Increase) decrease in inventories	(2,003)	(3,461)	645	(15,431)	(19,022)
(Increase) decrease in trade and other receivables	(6,554)	(4,327)	11,478	(26,374)	13,156
Increase (decrease) in trade and other payables	651	351	(2,679)	281	(6,229)
Cash generated from (used in) operations	30,687	22,563	45,769	(44,606)	(16,219)
Income tax paid	(6,631)	(6,670)	(4,861)	(480)	(53)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	24,056	15,893	40,908	(45,086)	(16,272)
INVESTING ACTIVITIES					
(Advance to) repayment from directors	(2,156)	1,870	1,494	564	—
Acquisition of plant and equipment	(1,719)	(904)	(12,537)	—	(5,750)
(Increase) decrease in pledged bank deposit	(1,560)	2,863	1,622	1,622	(3,000)
Interest received	426	151	417	32	61
Repayment from (advances to) related companies	360	(9,163)	(33,910)	5,835	—
Acquisition of prepaid lease payment	—	—	(3,590)	—	(325)
Repayment to an other receivable	—	—	(3,399)	—	—
[●] from disposal of plant and equipment	—	—	236	—	295
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(4,649)	(5,183)	(49,667)	8,053	(8,719)

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*Unaudited*)	*HK$'000*
FINANCING ACTIVITIES					
Dividends paid	(10,000)	—	(21,700)	(1,700)	—
Net (decrease) increase of trust receipt loans	(2,121)	(525)	5,737	4,215	14,105
Interest paid	(441)	(110)	(407)	(15)	(157)
(Repayments to) advances from directors	(340)	(285)	(12,440)	(1,709)	3,569
Repayment of obligations under finance leases	(142)	(315)	(210)	(70)	(70)
[●] from issue of shares	2,000	—	—	—	—
New bank borrowings raised	—	—	37,800	31,800	—
Repayments of bank borrowings	—	—	(2,014)	—	(1,106)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(11,044)	(1,235)	6,766	32,521	16,341
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,363	9,475	(1,993)	(4,512)	(8,650)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	34,851	43,550	52,997	52,997	51,562
EFFECT ON FOREIGN EXCHANGE RATES CHANGES	336	(28)	558	39	314
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	43,550	52,997	51,562	48,524	43,226

Notes to the Financial Information

For the three years ended 31 December 2010 and four months ended 30 April 2010 and 2011

1. BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

The Company was incorporated in Bermuda on 13 April 2011 as an exempted company with limited liability under the Bermuda Companies Act.

The address of the registered office is Codan Service Limited, Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of the principal place of business of the Company is Unit A, 32/F, Legend Tower, No. 7, Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company and its subsidiaries have been under the common control and management by Ms. Wong Kan Kan, Kandy (王勤勤) ("Ms. Wong"), Mr. Yam Tak Cheung (任德章) ("Mr. Yam") and Mr. Wong Tat Wai, Derek (王達偉) ("Mr. Wong") (together known as the "Controlling Shareholders") throughout the Track Record Period or since their respective date of incorporation up to 30 April 2011. Pursuant to the Reorganisation, the Company acquired the entire interests of Wide Reach and its subsidiaries by way of swap of shares and became the holding company of the companies now comprising the Group on 11 October 2011. During the Track Record Period, one of the subsidiaries, Nice Regent, was owned beneficially as to 70% by Mr. Wong and 30% by Mr. Yam and the board of directors of Nice Regent consisted of the Controlling Shareholders. While Mr. Wong is Ms. Wong's siblings and Mr. Yam is Ms. Wong's spouse and in accordance with agreement between them, they acted in concert to control the financial and operating activities and share the risks and benefits equally of each of the subsidiaries of the Group during the Track Record Period.

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information of the Group has been prepared on the basis as if the Company has always been the holding company of the companies comprising the Group throughout the Track Record Period, using the principle of merger accounting as set out in the Accounting Guidelines 5 "Merger accounting for common control combinations" issued by the HKICPA.

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

The functional currency of the Company, the subsidiaries incorporated in Hong Kong and the subsidiary established in the PRC is US$. The Financial Information is presented in HK$ as the operation of the Group are mainly based in Hong Kong.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted the relevant Hong Kong Accounting Standards ("HKAS"s), HKFRSs, amendments and the related interpretations ("INT"s) issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2011 throughout the Track Record Period.

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

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1(Revised)	Presentation of Financial Statements[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 "Financial Instruments" issued in November 2009 and amended in October 2010 introduces new requirements for the reclassification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's Financial Information for the annual periods beginning on or after 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 and HKAS 28 new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of the five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's Financial Information for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with condensed consolidated interim financial information. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investee, and consolidating investees that were not previously consolidated.

Other than disclosed above, the directors of the Company anticipate that the application of the other new and revised standards and amendments will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below which conform with HKFRSs issued by the HKICPA.

In addition, the Financial Information includes applicable disclosures required by the [●] Rules and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

(a) Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the combined statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

(b) Merger accounting for business involving entities under common control

The Financial Information incorporates the financial information items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The Financial Information are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

(c) Plant and equipment

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

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

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

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

(d) Prepaid lease payment

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to combined statement of comprehensive income over the period of the rights using the straight-line method.

(e) Inventories

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

(f) Financial instruments

Financial assets and financial liabilities are recognised on the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies and a director, pledged bank deposits and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment loss on financial assets

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

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 0 - 45 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and amounts due from related companies, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable and amounts due from related companies are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after all of its liabilities.

The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fee paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expenses are recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, dividend payables, amounts due to directors and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

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

Equity instruments

Equity instruments issued by the Company are recorded at the [●] received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

(g) Cash and cash equivalents

Bank balances and cash in the combined statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less. For the purpose of the combined statement of cash flows, cash and cash equivalent consist of cash and short-term deposits as defined above.

(h) Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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

(i) Revenue recognition

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

Sale of goods

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

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

(ii) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the that asset's net carrying amount on initial recognition.

(j) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

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

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

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

(l) Retirement benefit costs

Payments to state-managed retirement benefit schemes and defined contribution retirement schemes are charged as an expense when employees have rendered service entitling them to the contribution.

(m) Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

(n) Foreign currencies

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

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

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange translation reserve).

Such exchange differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Depreciation of plant and equipment

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

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

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

Estimated impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. The carrying amounts of trade receivables were approximately HK$31,455,000, HK$38,501,000, HK$29,709,000 and HK$18,930,000 at 31 December 2008, 31 December 2009 and 31 December 2010 and 30 April 2011, respectively. No impairment loss was recognised during the Track Record Period.

Estimated allowance for inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow-moving items. The carrying amounts of inventories were approximately HK$20,299,000, HK$23,760,000, HK$23,115,000 and HK$42,137,000 at 31 December 2008, 31 December 2009, 31 December 2010 and 30 April 2011, respectively. No impairment loss was recognised during the Track Record Period.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts which includes the bank borrowings, obligations under finance leases, pledged bank deposits and bank balances and cash disclosed in Notes 28, 29 and 25, respectively, and equity attributable to the owners of the parent, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of the review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to adjust the Group's capital structure. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through use of debts, the payment of dividends and new share issues.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December			At 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including bank balances and cash)	101,829	122,646	88,824	72,830
Derivative financial instruments	—	—	—	812
Financial liabilities				
Financial liabilities at amortised cost	51,451	49,575	80,192	91,364

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, amounts due from related companies and a director, derivative financial instruments, pledged bank deposits, bank balances and cash, trade and other payables, dividend payables, amounts due to directors, bank borrowings and obligations under financial leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to financial risk or the manner in which it manages and measures the risk.

Market risk

Currency risk

The Group has foreign currency purchases, which expose the Group to foreign currency risk. During the year ended 31 December 2008, 2009 and 2010 and the four months ended 30 April 2011, 0.2%, 1.2%, 2.4% and 1.7% of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the purchases, respectively.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting date are as follows:

	Assets				Liabilities			
	At 31 December			At 30 April	At 31 December			At 30 April
	2008	2009	2010	2011	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi ("RMB")	7,579	5,131	765	1,239	14,904	17,607	13,129	8,882

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

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in US$ against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where US$ strengthen 5% against the relevant currency. For a 5% weakening of US$ against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative. The analysis is performed on the same basis for the Track Record Period.

	RMB			
	Year ended 31 December			Four months ended 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Impact on profit for the year/period	306	521	516	319

This is mainly attributable to the exposure on outstanding trade and other payables denominated in RMB at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the market risk as each of the year end exposure does not reflect the exposure during the Track Record Period.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate obligations under finance leases (see Note 29 for details) for the Track Record Period. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 28 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's bank balances and pledged bank deposits are short-term in nature and the exposure of the interest rate risk is minimal.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used for the Track Record Period when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for the Track Record Period and all other variables were held constant, the Group's profit for the each of the three year ended 31 December 2008, 2009 and 2010 and the four months period ended 30 April 2011 would decrease/increase by approximately HK$4,000, HK$2,000, HK$175,000 and HK$230,000, respectively. This is mainly attributable to the Group's exposure to cash flow interest rate risk on its variable-rate bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as each of the year end exposure does not reflect the exposure during the Track Record Period.

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the funds are deposited in banks with high credit ratings assigned by international credit rating agencies.

The Group has concentration of credit risk for its five largest trade customers as 54%, 58%, 64% and 71% of the total trade receivables at 31 December 2008, 2009, 2010 and 30 April 2011 respectively was due from the Group's largest customer and 91%, 90%, 87% and 88% of the total trade receivables at 31 December 2008, 2009, 2010 and 30 April 2011 respectively was due from the five largest trade customers.

The Group's concentration of credit risk by geographical locations is mainly in the United States of America (the "USA"), which accounted for 77%, 77%, 69% and 70% of the total trade receivables at 31 December 2008, 2009, 2010 and 30 April 2011, respectively.

Liquidity risk

In management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted cashflows on interest are estimated based on interest rates at the end of the reporting period, and therefore subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

	At 31 December 2008				
	Within one year or on demand	More than one year less than two years	More than two years less than five years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities					
Trade and other payables	36,600	—	—	36,600	36,600
Amounts due to directors	12,725	—	—	12,725	12,725
Bank borrowings	1,028	—	—	1,028	1,023
Obligations under finance leases	339	257	661	1,257	1,103
	50,692	257	661	51,610	51,451

	At 31 December 2009				
	Within one year or on demand	More than one year less than two years	More than two years less than five years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities					
Trade and other payables	35,849	—	—	35,849	35,849
Amounts due to directors	12,440	—	—	12,440	12,440
Bank borrowings	500	—	—	500	498
Obligations under finance leases	240	240	422	902	788
	49,029	240	422	49,691	49,575

	At 31 December 2010					
	Within one year or on demand	More than one year less than two years	More than two years less than five years	More than five years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade and other payables	32,763	—	—	—	32,763	32,763
Dividends payables	4,830	—	—	—	4,830	4,830
Bank borrowings	9,954	3,660	10,143	20,765	44,522	42,021
Obligations under finance leases	240	240	180	—	660	578
	47,787	3,900	10,323	20,765	82,775	80,192

	At 30 April 2011					
	Within one year or on demand	More than one year less than two years	More than two years less than five years	More than five years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade and other payables	27,437	—	—	—	27,437	27,437
Amounts due to directors	3,569	—	—	—	3,569	3,569
Dividends payables	4,830	—	—	—	4,830	4,830
Bank borrowings	22,176	4,120	11,098	19,938	57,332	55,020
Obligations under finance leases	240	240	100	—	580	508
	58,252	4,360	11,198	19,938	93,748	91,364

8. FAIR VALUE

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

The directors of the Company consider that the carrying amounts of current financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximate to their fair values due to their short-term maturities.

The directors of the Company also consider that the fair value of the long-term portion of liabilities approximates to their carrying amount as they are carried at amortised cost by using the effective interest rate method.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Fair value measurements recognised in the combined statement of financial position

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

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

	At 30 April 2011 Level 2
	HK$'000
Asset	
Derivative financial instruments	812

9. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the net amounts received and receivable for goods sold and service provided in the normal course of business, net of discounts, sales returns and sales related taxes.

Analysis of the Group's turnover for the Track Record Period and the four months ended 30 April 2011 is as follows:

	Year ended 31 December			Four months ended 30 April	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Turnover					
Sales of knitted products	316,575	304,499	356,122	57,366	49,180
Other operating income					
Change in fair value of derivative financial instruments	—	—	—	—	812
Compensation income *(note)*	—	2,330	—	—	—
Bank interest income	426	151	228	32	61
Net exchange gain	—	—	106	—	92
Interest from a related company	—	—	189	—	—
Gain on disposal of plant and equipment	—	—	190	—	290
Sales of scrapped materials	3,258	3,314	5,527	105	173
Sundry income	102	465	181	121	511
	3,786	6,260	6,421	258	1,939

Note: The amount represents the compensation from a customer for not meeting certain sales target.

10. SEGMENT INFORMATION

The Group is engaged in a single segment, the production and trading of knitwear. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors as they collectively make strategic decision in allocating the Group's resources and assessing performance.

Geographical information

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

The Group's customers are mainly located in the USA.

An analysis of the Group's revenue from external customers by geographical location is detailed below:

	Revenue from external customers				
	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
USA	236,119	228,948	270,664	50,897	37,178
Europe	50,586	46,402	52,022	1,923	6,385
Canada	16,496	17,703	22,065	3,311	3,064
Others	13,374	11,446	11,371	1,235	2,553
	316,575	304,499	356,122	57,366	49,180

Less than 1% of the Group's revenue from external customers is derived from Hong Kong (country of domicile of principal subsidiary, Fornton Knitting) during the Track Record Period and the four months ended 30 April 2011.

The Group's information about its non-current assets by geographical location of the assets is detailed below:

	Non-current assets			
	At 31 December			At 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	2,366	2,108	3,942	3,886
The PRC	15,512	13,547	24,670	29,770
	17,878	15,655	28,612	33,656

Non-current assets are allocated to geographical segments other than deferred taxation.

Information about major customers

Details of the customers accounting for 10% or more of aggregate revenue of the Group during the Track Record Period and the four months ended 30 April 2010 are as follows:

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Customer A	166,567	168,648	200,496	38,302	34,427
Customer B	45,552	42,180	61,945	11,222	N/A*
Customer C	39,489	33,279	N/A*	N/A*	N/A*

* The corresponding revenue does not contribute over 10% of the total revenue of the Group in the respective year.

11. FINANCE COSTS

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Interest expenses on:					
— bank borrowings wholly repayable:					
— within five years	—	—	42	—	21
— after five years	—	—	203	—	102
— trust receipt loans	424	70	130	5	24
— obligations under finance leases	17	40	32	10	10
	441	110	407	15	157

12. INCOME TAX EXPENSE (CREDIT)

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

(i) On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced the corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

Hong Kong Profits Tax was calculated at 16.5% of the estimated profit for the Track Record Period and the four months ended 30 April 2010.

(ii) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Fung Ching is 25% for the Track Record Period.

Fung Ching is a wholly-owned foreign investment enterprise and is entitled to tax concessions whereby the profit for the first two financial years beginning on 1 January 2008 is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the PRC government (the "Tax Exemption").

Fung Ching is exempted from PRC Enterprise Income Tax from 1 January 2008 to 31 December 2009 and the applicable rate from 1 January 2010 to 31 December 2012 is 12.5%.

The income tax expense (credit) for the year/period can be reconciled to the profit (loss) before taxation per the combined statements of comprehensive income as follows:

	Year ended 31 December			Four months ended 30 April	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Profit (loss) before taxation	35,456	26,981	33,577	(3,860)	(4,716)
Tax at domestic income tax rate of 16.5%	5,850	4,452	5,540	(637)	(778)
Tax effect of expense not deductible for tax purposes	2,988	904	160	14	119
Tax effect of income not taxable for tax purposes	(50)	(13)	(25)	—	(139)
Tax effect of tax losses not recognised	205	—	—	—	332
Utilisation of tax losses previously not recognised	—	(205)	—	—	—
Effect of tax exemptions granted to PRC subsidiary	—	(726)	(173)	—	—
Effect of different tax rate of a subsidiary operating in other jurisdictions	(521)	362	108	(84)	(89)
Income tax expense (credit) for the year	8,472	4,774	5,610	(707)	(555)

Details of the deferred taxation are set out in Note 30.

13. PROFIT (LOSS) FOR THE YEAR/PERIOD

	Year ended 31 December			Four months ended 30 April	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Profit (loss) for the year/period has been arrived at after charging:					
Directors' emoluments *(Note 15)*	3,962	2,810	2,870	865	881
Salaries and allowances (excluding directors' emoluments)	27,015	21,986	21,031	6,623	7,188
Retirement benefit scheme contributions (excluding directors)	461	423	431	131	190
Total staff costs	31,438	25,219	24,332	7,619	8,259
Amortisation of prepaid lease payment	—	—	—	—	107
Auditor's remuneration	185	205	207	46	31
Cost of inventories recognised	233,957	235,932	273,113	47,025	38,172
Depreciation of plant and equipment	3,122	3,001	2,897	795	1,466
Net exchange loss	190	48	—	63	—
Loss on written off of plant and equipment	—	59	51	—	25
Operating lease rental paid in respect of rented — office premises	2,782	3,115	3,381	911	1,081
Processing Fees *(Note)*	27,728	27,026	31,176	7,810	9,857
Sub-contracting fee (included in cost of sales)	72,849	86,422	105,965	18,055	15,858

Note: The Processing Fees include the following components in accordance with the processing agreement:

	Year ended 31 December			Four months ended 30 April	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Salaries and allowances	6,537	7,147	9,456	2,663	3,719
Factory's lease	1,688	1,619	1,640	540	566
Labour cost — direct and indirect	16,396	15,722	17,312	3,867	4,793
Utilities	3,107	2,538	2,768	740	779
	21,191	19,879	21,720	5,147	6,138
	27,728	27,026	31,176	7,810	9,857

14. [●]

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments paid and payable to the directors of the Company for the Track Record Period and the four months ended 30 April 2010 are as follows:

	Year ended 31 December 2008				
	Fees	Salaries and other allowances	Performance related incentive payments *(Note)*	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Ms. Wong	—	1,296	807	12	2,115
Mr. Yam	—	474	207	12	693
Mr. Wong	—	936	194	24	1,154
Independent non-executive directors:					
Mr. Wang Wei Hung, Andrew	—	—	—	—	—
Mr. Cheng Dickson	—	—	—	—	—
Mr. Sin Ka Man	—	—	—	—	—
	—	2,706	1,208	48	3,962

	Year ended 31 December 2009				
	Fees	Salaries and other allowances	Performance related incentive payments *(Note)*	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Ms. Wong	—	1,318	—	12	1,330
Mr. Yam	—	488	—	12	500
Mr. Wong	—	956	—	24	980
Independent non-executive directors:					
Mr. Wang Wei Hung, Andrew	—	—	—	—	—
Mr. Cheng Dickson	—	—	—	—	—
Mr. Sin Ka Man	—	—	—	—	—
	—	2,762	—	48	2,810

	Year ended 31 December 2010				
	Fees	Salaries and other allowance	Performance related incentive payments *(Note)*	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Ms. Wong	—	1,351	—	12	1,363
Mr. Yam	—	501	—	12	513
Mr. Wong	—	970	—	24	994
Independent non-executive directors:					
Mr. Wang Wei Hung, Andrew	—	—	—	—	—
Mr. Cheng Dickson	—	—	—	—	—
Mr. Sin Ka Man	—	—	—	—	—
	—	2,822	—	48	2,870

	Four months ended 30 April 2010 *(Unaudited)*				
	Fees	Salaries and other allowance	Performance related incentive payments *(Note)*	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Ms. Wong	—	407	—	4	411
Mr. Yam	—	149	—	4	153
Mr. Wong	—	293	—	8	301
Independent non-executive directors:					
Mr. Wong Wei Hung, Andrew	—	—	—	—	—
Mr. Cheng Dickson	—	—	—	—	—
Mr. Sin Ka Man	—	—	—	—	—
	—	849	—	16	865

	Four months ended 30 April 2011				
	Fees	**Salaries and other allowance**	**Performance related incentive payments** *(Note)*	**Retirement benefit scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Ms. Wong	—	416	—	4	420
Mr. Yam	—	152	—	4	156
Mr. Wong	—	297	—	8	305
Independent non-executive directors:					
Mr. Wong Wei Hung, Andrew	—	—	—	—	—
Mr. Cheng Dickson	—	—	—	—	—
Mr. Sin Ka Man	—	—	—	—	—
	—	865	—	16	881

None of the directors waived or agreed to waive any emoluments during the Track Record Period and the four months ended 30 April 2010.

Note: The performance related incentive payments are determined with reference to the operating results and individual performance during the Track Record Period and the four months ended 30 April 2010.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two were directors of the Company for each of the three year ended 31 December 2010 and the four months ended 30 April 2010 and 2011. The emoluments of these directors are included in the disclosures in Note 15(a) above. The emoluments of the remaining three individuals were as follows:

	Year ended 31 December			Four months ended 30 April	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Salaries and other allowances	2,790	2,835	2,891	688	990
Performance related incentive payments	1,056	234	120	—	—
Retirement benefit scheme contributions	24	24	24	8	12
	3,870	3,093	3,035	696	1,002

Note: The performance related incentive payments are determined with reference to the operating results and individual performance during the Track Record Period and the four months ended 30 April 2010.

Their emoluments were within the following bands:

	Number of individuals				
	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
				(Unaudited)	
Not more than HK$1,000,000	—	2	2	3	3
HK$1,000,000 to HK$1,500,000	3	1	1	—	—
	3	3	3	3	3

During the Track Record Period and the four months ended 30 April 2010, no emoluments were paid or payable by the Group to the directors or the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office.

16. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation.

During the year ended 31 December 2010, a special dividend of approximately HK$53,000,000 in respect of year ended 31 December 2010 was declared by Fornton Knitting to the then shareholders.

During the year ended 31 December 2010, an interim dividend of approximately HK$20,000,000 in respect of year ended 31 December 2010 was declared by Fornton Knitting to the then shareholders.

During the year ended 31 December 2010, a final dividend of approximately HK$1,700,000 in respect of the year ended 31 December 2009 was declared by Fornton Knitting to the then shareholders.

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

The dividend payable of approximately HK$4,830,000 as at 31 December 2010 and 30 April 2011 was settled by cash by Fornton Knitting to the then shareholders in July 2011.

17. PLANT AND EQUIPMENT

	Plant and machinery	Office equipment	Furniture and fixtures	Leasehold improvement	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2008	10,145	10,462	1,840	917	2,660	26,024
Additions	423	931	64	183	1,168	2,769
Exchange realignment	359	410	79	—	105	953
At 31 December 2008	10,927	11,803	1,983	1,100	3,933	29,746
Additions	4	382	20	37	461	904
Written-off	—	(310)	(276)	—	(474)	(1,060)
Exchange realignment	(32)	(37)	(7)	(1)	(9)	(86)
At 31 December 2009	10,899	11,838	1,720	1,136	3,911	29,504
Additions	9,317	443	202	2,575	—	12,537
Disposals	(297)	(338)	—	—	—	(635)
Written-off	(426)	(269)	—	(941)	—	(1,636)
Exchange realignment	246	339	57	11	64	717
At 31 December 2010	19,739	12,013	1,979	2,781	3,975	40,487
Additions	4,697	529	114	410	—	5,750
Disposals	(747)	—	—	—	(551)	(1,298)
Written-off	—	(48)	(2)	—	—	(50)
Exchange realignment	307	13	43	—	4	367
At 30 April 2011	23,996	12,507	2,134	3,191	3,428	45,256
ACCUMULATED DEPRECIATION						
At 1 January 2008	6,832	8,547	840	917	1,049	18,185
Provided for the year	1,371	791	337	31	592	3,122
Exchange realignment	189	360	28	—	31	608
At 31 December 2008	8,392	9,698	1,205	948	1,672	21,915
Provided for the year	1,175	801	335	41	649	3,001
Eliminated on written-off	—	(310)	(276)	—	(415)	(1,001)
Exchange realignment	(21)	(32)	(4)	—	(4)	(61)
At 31 December 2009	9,546	10,157	1,260	989	1,902	23,854
Provided for the year	1,236	499	349	150	663	2,897
Eliminated on disposals	(252)	(337)	—	—	—	(589)
Eliminated on written-off	(425)	(230)	—	(930)	—	(1,585)
Exchange realignment	218	283	42	2	46	591
At 31 December 2010	10,323	10,372	1,651	211	2,611	25,168
Provided for the period	744	241	88	177	216	1,466
Eliminated on disposals	(747)	—	—	—	(546)	(1,293)
Eliminated on written-off	—	(24)	(1)	—	—	(25)
Exchange realignment	76	6	39	—	4	125
At 30 April 2011	10,396	10,595	1,777	388	2,285	25,441
CARRYING VALUES						
At 31 December 2008	2,535	2,105	778	152	2,261	7,831
At 31 December 2009	1,353	1,681	460	147	2,009	5,650
At 31 December 2010	9,416	1,641	328	2,570	1,364	15,319
At 30 April 2011	13,600	1,912	357	2,803	1,143	19,815

(i) The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	20%
Office equipment	20%
Furniture and fixtures	10% to 20%
Leasehold improvement	Over the shorter of term of the lease or 5 years
Motor vehicles	20%

(ii) The carrying values of motor vehicles as at 31 December 2008, 2009 and 2010 and 30 April 2011 included an amount of approximately HK$1,185,000, HK$857,000, HK$623,000 and HK$545,000 in respect of assets under finance leases.

18. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

The balance represents RMB8,835,000 at 31 December 2008 and 31 December 2009 (equivalent to approximately HK$10,047,000 and HK$10,005,000 at 31 December 2008 and 31 December 2009, respectively) paid to an independent third party as a deposit for the acquisition of land use rights in the PRC. The deposit has been transferred to prepaid lease payment during the year ended 31 December 2010. The land use rights are being used for plant expansion.

19. PREPAID LEASE PAYMENT

	At 31 December			At 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepaid lease payment comprises of leasehold land held in the PRC under medium-term lease and are analysed for reporting purposes as follows:				
Current assets	—	—	302	315
Non-current assets	—	—	13,293	13,841
	—	—	13,595	14,156

20. INVENTORIES

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

21. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	31,455	38,501	29,709	18,930
Other receivables	13,878	13,772	7,553	7,674
Prepayment	7,648	5,035	11,967	9,469
	52,981	57,308	49,229	36,073

(i) The Group generally allows an average credit period of 0–45 days to its trade customers.

(ii) An aged analysis of trade receivables, net of impairment loss recognised is as follows:

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

(iii) At 31 December 2008, 31 December 2009, 31 December 2010 and 30 April 2011, the analysis of trade receivables that were neither past due nor impaired and past due but not impaired are as follows:

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**Less than 45 days**	**46 to 90 days**	**91 to 365 days**	**Over 365 days**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2008	31,455	28,530	2,498	226	201	—
At 31 December 2009	38,501	35,071	3,177	—	11	242
At 31 December 2010	29,709	27,842	1,780	87	—	—
At 30 April 2011	18,930	16,676	1,970	272	12	—

No impairment loss is provided for the trade receivables that are neither past due nor impaired because these receivables are within credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and past experience.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history from those receivables of the Group which are past due but not impaired for the Track Record Period, the directors of the Company consider that no allowance is required.

(iv) Included other receivables in the combined statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	At 31 December			At 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	7,579	5,131	765	1,239

22. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	At 31 December			At 30 April	Maximum amount outstanding during the year/period: During the year ended 31 December			During the four months ended 30 April
	2008	2009	2010	2011	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Long Rise Investment Development Limited ("Long Rise")	—	9,128	—	—	—	9,128	47,314	—
Global Party Limited	4,314	4,314	—	—	4,714	4,314	4,314	—
All Rising Limited	176	194	—	—	176	194	218	—
R&D Mode Limited	182	182	—	—	182	182	182	—
Junall Limited ("Junall")	32	49	—	—	34	49	64	—
	4,704	13,867	—	—				

Ms. Wong, Mr. Wong and Mr. Yam have direct or indirect interests in all of the above companies. The amounts are unsecured, non-interest bearing and repayable on demand.

The amounts due from related companies mainly represented fund advance to related companies for daily operation except that the amount due from Long Rise represented fund advance to Long Rise for acquisition of a property. The advance to Long Rise during the year ended 31 December 2010 carries interest at floating-rate ranging from 1 month HIBOR plus 0.8% to 0.9% per annum.

The amounts have been fully settled during the year ended 31 December 2010.

23. AMOUNT DUE FROM A DIRECTOR

Director's current accounts disclosed pursuant to section 161B of the Companies Ordinance is as follows:

					Maximum amount outstanding during the year/period			
	At 31 December			At 30 April	Year ended 31 December			Four months ended 30 April
Director	**2008**	**2009**	**2010**	**2011**	**2008**	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Yam	—	—	—	—	—	—	—	22,700
Mr. Wong	3,757	1,887	—	—	4,672	1,887	12,657	545

The amounts are unsecured, non-interest bearing and repayable on demand.

The amounts mainly represented funds advanced from a director for business operation of the Group.

The amounts have been fully settled during the year ended 31 December 2010.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	At 31 December			At 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Derivative financial assets not under hedge accounting consists of the fair value of foreign currency forward contracts and are analysed for reporting purpose as follows:				
Current	—	—	—	812

The derivatives are measured with reference to exchange rates from financial instruments for equivalent instruments.

The Group entered into two non-deliverable structured forward contracts (the "Forward Contracts") denominated in USD and RMB during the four months period ended 30 April 2011 with a bank. Each of the Forward Contracts comprises 24 forward exchange transactions at relevant determination dates (on each month end between August 2011 and July 2013).

Pursuant to the terms of each of the Forward Contracts, on each of the 24 determination dates, the Group will have to sell US$1,000,000 against RMB at the respective predetermined exchange rate as disclosed below. If the spot exchange rate of USD against RMB (the "Spot Rate") is below the predetermined exchange rate (the "Condition"), the Group will receive a fixed amount of RMB30,000 from the bank. Each of the Forward Contracts will be terminated on the date which is the eleventh time the Condition is satisfied. There will be no early termination if the Condition is satisfied less than eleven times.

If the Spot Rate is higher than the predetermined exchange rate, the exposure of the Group is to pay the bank US$1,000,000 times the difference between the Spot Rate and the predetermined exchange rate for each of the Forward Contracts. There is no cap on the exposure.

Notional amount	Maturity	Predetermined exchange rates
USD2,000,000	2 September 2011 to 2 August 2012	USD1: RMB6.59
USD2,000,000	4 September 2012 to 2 August 2013	USD1: RMB6.45

The gain arising from change in fair value of the foreign currency contract for the four months ended 30 April 2011 was approximately HK$812,000. No gain or loss arising from change in fair value of the foreign currency contract for each of the three years ended 31 December 2010 and the four months ended 30 April 2010.

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances and cash comprise of cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances for the years ended 31 December 2008, 31 December 2009, 31 December 2010 and the four months ended 30 April 2011 carried interest at the prevailing market rate ranging from 0.01% to 0.72%, 0.01% to 0.72%, 0.01% to 0.36% and 0.01% to 0.5%, respectively. The pledged deposits carried fixed interest rate of 0.30% per annum during the each of the three years ended 31 December 2010 and 0.17% per annum during the four months ended 30 April 2011.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately HK$4,485,000, HK$1,622,000 and HK$3,000,000 at 31 December 2008, 31 December 2009 and 30 April 2011, respectively have been pledged to secure trust receipt loans and are therefore classified as current assets.

The Group's bank balances and cash denominated in RMB amounted to approximately HK$673,000, HK$12,069,000, HK$12,506,000 and HK$7,961,000 at 31 December 2008, 31 December 2009, 31 December 2010 and 30 April 2011, respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

26. TRADE AND OTHER PAYABLES

	At 31 December			At 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	23,289	22,690	19,796	14,753
Receipt in advance	328	177	398	281
Other payables	13,311	13,159	12,967	12,684
Value added tax payables	4,617	5,755	6,889	6,629
	41,545	41,781	40,050	34,347

(i) An aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

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

The average credit period on purchase of goods is from 30 days to 90 days. The Group has financial risk management policies or plans for its payables with respect to the credit timeframe.

(ii) Receipt in advance represented advance payments of related sales of goods from customers pursuant to the respective service contracts.

(iii) Included in trade and other payables in the combined statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	At 31 December			At 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	14,904	17,607	13,129	8,882

27. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, non-interest bearing and repayable on demand.

28. BANK BORROWINGS

	At 31 December			At 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured:				
Trust receipts loans *(Note i)*	1,023	498	6,235	18,000
Unsecured:				
Mortgage loan *(Note ii)*	—	—	30,386	29,680
Other bank loan *(Note iii)*	—	—	5,400	7,340
	1,023	498	42,021	55,020
Bank borrowings repayable:				
On demand or within one year	1,023	498	9,555	21,788
More than one year but not exceeding two years	—	—	3,320	3,788
More than two years but not exceeding five years	—	—	9,360	10,364
More than five years	—	—	19,786	19,080
	1,023	498	42,021	55,020
Less: Amounts due within one year shown under current liabilities	(1,023)	(498)	(9,555)	(21,788)
	—	—	32,466	33,232

Notes:

(i) During the Track Record Period, trust receipts loans of the Group bear interest at floating rates of interest and due within 3 months. The floating rate borrowings carrying interest at 1 month HIBOR plus 1.125% per annum, ranging from HIBOR plus 1.125% to 1.625% per annum, ranging from 1 month HIBOR plus 1.1% to 1.625% per annum and ranging from 1 month HIBOR plus 1.1% to 1.625% during the year ended 31 December 2008, 31 December 2009, 31 December 2010 and four months ended 30 April 2011, respectively.

(ii) During the year ended 31 December 2010, the mortgage loan with principal amount of HK$31,800,000 carries floating-rate ranging from 1 month HIBOR plus 0.8% to 0.9% per annum, repayable in 180 instalments commencing on 31 May 2010. The mortgage loan will be fully repaid by 30 April 2025.

(iii) During the year ended 31 December 2010, the other bank loan with principal amount of HK$6,000,000 was raised under the Special Loan Guarantee Scheme ("Special loan"), which carries floating-rate at 1 month HIBOR plus 1.25% per annum, repayable in 60 instalments commencing on 31 July 2010. The Special loan will be fully repaid by 31 August 2015. 80% of the principal amount of the special bank loan is guaranteed by the Government of Hong Kong Special Administrative Regions.

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

At 31 December 2008, 2009 and 2010 and at 30 April 2011, the Group has unused banking facilities of HK$64,827,000, HK$65,502,000, HK$87,266,000 and HK$62,886,000 respectively.

The Group's bank borrowings at the end of each reporting period were secured by the following:

(a) At the end of each reporting period, trust receipts loans were guaranteed by Ms. Wong, Mr. Yam and Mr. Wong. At 31 December 2010 and 30 April 2011, the Group provides a negative pledge to a bank on certain plant and machinery with carrying amount of approximately HK$8,839,000 and HK$11,494,000, respectively;

(b) At 31 December 2010 and at 30 April 2011, the mortgage loan was guaranteed by Ms. Wong, Mr. Yam, Mr. Wong and secured by a legal charge over a property owned by Long Rise;

(c) At 31 December 2010 and at 30 April 2011, the other bank loan was guaranteed by Ms. Wong and Mr. Yam; and

(d) At the end of each reporting date, certain banking facilities of the Group was secured by a property held by Mr. Wong.

29. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term of these leases is five years throughout the Track Record Period.

At the end of each reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments				Present value of minimum lease payments			
	At 31 December			At 30 April	At 31 December			At 30 April
	2008	2009	2010	2011	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:								
Within one year	339	240	240	240	300	210	210	210
More than one year, but not more than two years	257	240	240	240	225	210	210	210
More than two year, but not more than five years	661	422	180	100	578	368	158	88
	1,257	902	660	580	1,103	788	578	508
Less: Future finance charges	(154)	(114)	(82)	(72)	—	—	—	—
Present value of lease obligations	1,103	788	578	508	1,103	788	578	508
Less: Amounts due within one year shown under current liabilities					(300)	(210)	(210)	(210)
Amounts due after one year					803	578	368	298

All obligations under finance leases of the Group bear interest at fixed interest rates. The underlying interest rates of these obligations under finance leases are ranging from 2% to 2.9%, ranging from 2% to 2.9%, 2.9% and 2.9% per annum during the year ended 31 December 2008, 31 December 2009, 31 December 2010 and 30 April 2011, respectively. The Group's obligation under finance leases are secured by the lessor's charge over the leased assets. These leases had no terms of renewal or purchase options and escalation clauses.

All obligations under finance leases are denominated in HK$.

30. DEFFERED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 31 December			At 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets	—	—	—	595
Deferred tax liabilities	(79)	(91)	(151)	(26)
	(79)	(91)	(151)	569

The movements in deferred tax assets (liabilities) of the Group during the Track Record Period are as follows:

	Difference between depreciation allowance and related depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	27	—	27
Charged to combined statement of comprehensive income during the year *(Note 12)*	(106)	—	(106)
At 31 December 2008	(79)	—	(79)
Charged to combined statement of comprehensive income during the year *(Note 12)*	(12)	—	(12)
At 31 December 2009	(91)	—	(91)
Charged to combined statement of comprehensive income during the year *(Note 12)*	(60)	—	(60)
At 31 December 2010	(151)	—	(151)
(Charged) Credited to combined statement of comprehensive income during the period *(Note 12)*	(26)	746	720
At 30 April 2011	(177)	746	569

At 31 December 2008, the Group had tax losses of approximately HK$1,243,000 available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future income stream. No tax losses are reported at 31 December 2009 and 31 December 2010.

At 30 April 2011, the Group had unused tax losses of approximately HK$6,531,000 available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$4,520,000 of such losses. No deferred tax asset has been recognised in respect of the remaining HK$2,011,000 due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the Financial Information in respect of temporary differences as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

31. SHARE CAPITAL

For the purpose of this report, the issued share capital in the combined statements of financial position at 1 January 2008, 31 December 2008 and 2009 represented the aggregate share capital of Fornton Holdings, Fornton Knitting and Nice Regent.

The share capital at 31 December 2010 and 30 April 2011 represented the share capital of Wide Reach, and the aggregate share capital of Fornton Holdings, Fornton Knitting and Nice Regent held by Mr. Yam, Ms Wong and Mr. Wong as at 31 December 2010 and 30 April 2011.

The Company was incorporated in Bermuda as an exempted company with limited liabilities under the Bermuda Companies Act 1981 on 13 April 2011 with an authorised share capital of HK$100,000 divided into 10,000,000 shares of HK$0.01 each and 3,000 shares were issued thereafter.

Pursuant to a resolutions in writing of the shareholders of the Company passed on [●], the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by creation of 9,990,000,000 new shares.

32. RESERVES

Merger reserve

On 31 December 2010, as part of the Reorganisation, Wide Reach subscribed to the allotment of new shares by the Group's subsidiary, which accounted for 99.98%, 80% and 99.9% of the then resulting issued share capital of Fornton Holdings, Fornton Knitting and Nice Regent respectively and gained controlled of them. The subscription of new shares was accounted for by the Group using merger method and 8,020,000 was recognised in merger reserve.

33. RETIREMENT BENEFIT SCHEMES

The Group participates in a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant costs to the scheme, which contribution is matched by employees.

The employees of the Company's subsidiary established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the scheme.

The Group made contributions to the retirement benefits schemes of approximately HK$509,000, HK$471,000, HK$479,000, HK$147,000 and HK$206,000 for the year ended 31 December 2008, 2009 and 2010 and the four months ended 30 April 2010 and 2011, respectively.

34. MAJOR NON-CASH-TRANSACTIONS

During the year ended 31 December 2008, the Group entered into finance lease arrangements in respect of motor vehicle with a total capital value at the inception of the lease of HK$1,050,000.

During the year ended 31 December 2010, the dividend paid by Fornton Knitting amount to approximately HK$48,170,000 was offset with the amounts due from directors.

During the year ended 31 December 2010, amounts due from related companies of approximately HK$47,777,000 have been assigned to amounts due to directors with same amounts.

35. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises and offices under operating lease arrangements. Lease for properties are negotiated for terms ranging from one to three years and rentals are fixed. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

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

	Year ended 31 December			Four months ended 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	3,179	4,193	3,308	5,173
In the second to fifth year inclusive	2,914	—	4,188	7,103
	6,093	4,193	7,496	12,276

36. CAPITAL COMMITMENT

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

37. CONTINGENT LIABILITIES

A subsidiary has been named as defendant in a High Court action since a writ was issued against it and it was claimed for an amount of approximately HK$1,118,000 of which approximately HK$851,000 is already included in the trade payables at 31 December 2008, 31 December 2009, 31 December 2010 and 30 April 2011. The subsidiary has filed a defence and counterclaim to this writ. In the opinion of the directors of the Company, no additional provision for any potential liability has been made in the Financial Information as the additional claim is regarded as remote.

38. RELATED PARTY TRANSACTIONS

In addition to those balances with related parties disclosed in Notes 22, 23 and 27, respectively, the Group has entered into the following significant transactions with related parties during the Track Record Period.

(a) Compensation of key management personnel

Other than the remuneration paid to the directors and employees of the Group as set out in Note 15, who are considered as the key management personnel of the Group, the Group did not have any other significant compensations to key management personnel.

The remuneration of the directors and key management personnel is determined by the board of directors of the Company having regards to the performance of individuals and market trends.

(b) Banking facilities

At 31 December 2008, 2009, 2010 and 30 April 2011, certain banking facilities of the Group were jointly guaranteed by the directors of the Company to the following extent:

	At 31 December			At 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Ms. Wong and Mr. Yam	60,000	66,000	99,500	120,460
Mr. Wong	40,500	40,500	55,000	55,960

Details of the guarantees are set out in Note 28.

(c) Other related parties transactions

		Year ended 31 December			Four months ended 30 April
Name of company	Nature of transaction	2008	2009	2010	2011
		HK$000	*HK$000*	*HK$000*	*HK$000*
Junall	Rental paid thereto	180	—	—	—
Long Rise	Interest income therefrom	—	—	189	—
	Rental paid thereto	—	—	142	568

The above transactions were at terms determined and agreed by the Company and the relevant parties.

The proceed from the mortgage loan raised during the year ended 31 December 2010 was advanced to Long Rise for acquisition of the property. On 30 March 2011, the Group entered into a tenancy agreement with Long Rise in respect of the leasing of this property as the Group's headquarter, at an annual rental of HK$1,800,000.

B. SUBSEQUENT EVENT

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

Reorganisation

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

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 30 April 2011.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
[●]
Practising Certificate Number: [●]
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Limited, an independent valuer, in connection with its valuation as at 31 July 2011 of the property interests of the Group.

JONES LANG LASALLE 仲量聯行

Jones Lang LaSalle Limited
Valuation Advisory Services
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2968 0078
Company Licence No.: C-003464

ISO 9001 : 2008
Certificate No.: CC 568

[Date]

The Board of Directors
Fornton Group Limited
Unit A on 32nd Floor,
Legend Tower,
No. 7 Shing Yip Street,
Kowloon, Hong Kong

Dear Sirs

Re: Portfolio Asset Valuation for Fornton Group Limited

Instruction and Date of Valuation

In accordance with the instruction from Fornton Group Limited ("the Company") and its subsidiaries (hereinafter together referred to as the "Group"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we deem necessary to provide our opinion of the capital values of the property interests as at 31 July 2011 ("the date of valuation"). For properties located in the People's Republic of China (the "PRC"), we have prepared our valuations in our capacity as "overseas consultants" in the PRC.

Basis of Valuation

Our valuation is made on the basis of the market value adopted by the Hong Kong Institute of Surveyors ("HKIS") as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In preparing the valuation, we have complied with the requirements as set out in Chapter 5 and Practice Note 12 of the Rules Governing the [●] of Securities on The [●] of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by HKIS.

We have applied the definition of market value to each property interest independently. The valuation presented in this report represents 100% interest of each property interest and not the shareholdings of the company holding the property interest thereof.

Valuation Assumptions & Method

Our valuation has been made on the assumption that the owner sells the property on the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the value of the property.

No allowance has been made in our valuation for any unpaid land use fee or premium, compensation, charges, mortgages or amounts owing on the property nor for any expenses or taxation that may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of onerous nature that could affect its value.

In forming our opinion of value of the property, we have assumed that the grantee or the user of the property has free and uninterrupted rights to use and assign the property interest for the whole of the unexpired term as granted. Unless otherwise stated, we have valued the property on the assumption that it is freely disposable and transferable and the property has been built and completed in accordance with relevant government approvals.

We have assessed the market value of the property interest in Group I which is held for future development by the Group in the PRC, by direct comparison approach. In applying the direct comparison approach, we have compared the subject property with comparable properties that were recently sold/available for sale in the market around the date of valuation. Appropriate adjustments have been considered in the course of assessment to reflect the difference between the subject property and the comparables.

We have attributed no commercial value to the property interests in Group II and Group III, which are leased by the Group in Hong Kong and the PRC respectively, due either to the short-term nature of the lease, the prohibition against assignment or sub-letting, or otherwise due to the lack of substantial profit rent.

Source of Information

We have relied on the information provided by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us. We were also advised by the Group that no material facts have been omitted from the information supplied and no material information has been withheld.

Dimensions, measurements and areas included in the valuation report are based on information contained in copies of documents provided to us and are therefore only approximations

Title Investigation

We have not been provided with copies of title documents of the property interest located in Hong Kong but we have conducted Land Registry searches at the Land Registry.

We have been provided with copies of certain title documents relating to the property interests in the PRC. However, we have not conducted title searches of the property interests nor have we examined the original documents to verify ownership and encumbrances or to ascertain the existence of any land use rights amendments that may appear on the copies handled to us. All documents have been used for reference only. In the course of our valuation, we have relied on the opinion provided by the Group's PRC legal adviser, King & Wood PRC Lawyers (金杜律师事务所), regarding the title of the property interests.

Property Inspection

We inspected the exterior and where possible the representative parts of the interior of the property interests in July 2011.

We have not conducted formal site and structural surveys and, as such, we cannot report that the property interests are free from rot, infestation or any other structural defects. We have not carried out building surveys, nor have we inspected those parts of the property interests, which are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts. No tests have been carried out to any of the building services.

We were not instructed to arrange for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the property interests, or has since been incorporated, and therefore unable to report that the property interests are free from risk in this respect. For the purpose of this assessment, we have assumed that such investigations would not disclose the presence of any such material to any significant extent. Our valuation is prepared on the assumptions that these aspects are satisfactory.

Site Investigation

We have not carried out site measurements to verify the correctness of the site areas of the property interests. We have assumed that the site areas and the identification of the property interests as shown on the documents provided by the Group are correct.

We were not instructed to carry out investigations on site to determine the suitability of the ground conditions and the services etc for any future development, nor did we undertake archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory and that where development is contemplated, no extraordinary expenses or delays will be incurred during the construction period due to these, or to archaeological or ecological matters. In the course of our assessment, we have assumed that no contamination affecting the property interests or the neighboring land.

Currency

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollar (HK$). We adopted the exchange rate at approximately RMB1 = HK$1.2 in our valuation, which was the approximate exchange rate as at the date of valuation.

The Summary of Valuations and the Valuation Certificates are attached hereto.

Yours faithfully
For and on behalf of
Jones Lang LaSalle Limited

Alkan Au *BA (Hons), MHKIS, MRICS, RPS (GP)*
National Director
Licence No.: E-181955

Note: Mr. Au is a Registered Professional Surveyor and a National Director with the Valuation Advisory Service Department of Jones Lang LaSalle Limited. He has about 17 years and 8 years of valuation and advisory experience in Hong Kong and in the PRC respectively.

SUMMARY OF VALUATIONS

Group I — Property Interest Held for Future Development by the Group in the PRC

	Property	Capital Value as at 31 July 2011	Interest attributable to the Group	Capital Value attributable to the Group as at 31 July 2011
		(HK$)		(HK$)
1.	A parcel of industrial land located at Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC	14,400,000	100%	14,400,000
	Sub-total:	**14,400,000**		**14,400,000**

Group II — Property Interest Rented and Occupied by the Group in Hong Kong

	Property	Capital Value as at 31 July 2011	Interest attributable to the Group	Capital Value attributable to the Group as at 31 July 2011
		(HK$)		(HK$)
2.	Unit A on 32nd Floor, Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong	No commercial value	100%	No commercial value
	Sub-total:	**Nil**		**Nil**

Group III — Property Interests Rented and Occupied by the Group in the PRC

	Property	Capital Value as at 31 July 2011	Interest attributable to the Group	Capital Value attributable to the Group as at 31 July 2011
		(HK$)		(HK$)
3.	An industrial complex located at Baishigang Village, Changping Town, Dongguan City, Guangdong Province, the PRC	No commercial value	100%	No commercial value
4.	An industrial complex located at No. 189 Fuli East Road, Xiangwei Village, Hangwei District, Dongguan City, Guangdong Province, the PRC	No commercial value	100%	No commercial value
	Sub-total:	**Nil**		**Nil**
	Grand-total:	**14,400,000**		**14,400,000**

VALUATION CERTIFICATE

Group I — Property Interest Held for Future Development by the Group in the PRC

	Property	Description, age and tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2011
1.	A parcel of industrial land located at Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC (the "Property") (Lot No. 1917190300218)	The Property comprises an industrial land parcel with site area of approximately 30,400.5 m^2. The Group plans to develop an industrial complex with a planned total gross floor area of 37,500 m^2, which will comprise the following buildings: **Gross Floor Area (m^2)** Office building 3,500 Factory 10,000 Warehouse 4,000 Dormitory 16,500 Canteen 2,500 Ancillary Facilities 1,000 Total 37,500 The land use rights of the Property are granted for a land use term due to expiry on 17 April 2055 for industrial use. The current annual land use fee (土地管理费) of the Property payable to the government is about RMB136,800.	The Property was vacant as at the date of inspection.	RMB12,000,000 (100% interest attributable to the Group: RMB12,000,000) Converted to HK$ 14,400,000

Notes:

1. According to copy of the State-owned Land Use Rights Transfer Contract (国有土地使用权转让合同) dated 6 August 2010 entered into between Dongguan Mei De Home Appliances Ltd (东莞美德家庭制品有限公司) and May Tak Industrial Development Limited (美德工业发展有限公司) (Vendor) and Dongguan Fung Ching Knitting Company Limited (东莞丰正针织有限公司) (Purchaser), the Property with site area of approximately 30,400.5 m^2 for industrial use was granted to the Purchaser at a consideration of RMB7,867,500.

2. According to copy of the State-owned Land Use Rights Certificate Dong Fu Guo Yong (2005) Di Te No. 702-1 (东府国用（2005）第特702-1号) issued by the People's Government of Dongguan City on 28 December 2010, the land use rights of the Property are granted to Dongguan Fung Ching Knitting Company Limited (东莞丰正针织有限公司) for a term due to expiry on 17 April 2055 for industrial use.

3. According to the confirmation letter regarding the plot ratio of the Property dated 28 March 2011 from the Planning Administrative Office of Dalang Town, Dongguan City (东莞市大朗镇规划管理所), the maxium plot ratio of the Property is 1.8 with the maximum gross floor area of 54,720.9 m^2.

4. Dongguan Fung Ching Knitting Company Limited is an indirect wholly-owned subsidiary of the Group.

5. We have in the course of the valuation accepted and taken into account the following legal opinion provided by the Group's PRC Legal Adviser:

   (i) Dongguan Fung Ching Knitting Company Limited (东莞丰正针织有限公司) has obtained the State-owned Land Use Rights Certificate of the Property;

   (ii) Dongguan Fung Ching Knitting Company Limited (东莞丰正针织有限公司) has the right to freely transfer, lease and mortgage the Property;

   (iii) All land transaction payment and relevant taxation payment have been settled;

   (iv) The Property is not subject to mortgage and any other encumbrances; and

   (v) The Company has a 100% equity interests in Dongguan Fung Ching Knitting Company, the owner of the Property.

VALUATION CERTIFICATE

Group II — Property Interest Rented and Occupied by the Group in Hong Kong

	Property	Description, age and tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2011
2.	Unit A on 32nd Floor, Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong ("the Property") 889/50,000th equal and undivided shares of and in Kun Tong Inland Lot No. 89	The Property comprises an office unit on the 32nd Floor of a high-rise office development known as Legend Tower completed in 2009. The gross floor area and saleable area of the Property is about 8,887ft^2 (825.62 m^2) and 6,579 ft^2 (611.20 m^2) respectively. The land that the Property erected on is held from the Government Lease for a term of 21 years from 1 July 1955 and was renewed for a further term of 21 years. The lease has been extended to 30 June 2047. The current annual Government rent payable for the Property is an amount equal to 3% of the rateable value of the Property.	The Property was occupied by the Group for office purposes as at the date of inspection. The Group rented the Property from Long Rise Investment Development Limited for a term of 3 years commencing on 1 December 2010 and expiring on 30 November 2013, at a monthly rent of HK$150,000, exclusive of Government rent, rates, management fees and other outgoings.	No commercial value

Notes:

1. The registered owner of the Property is Long Rise Investment Development Limited vide Memorial No. 10051802440033 dated 21 April 2010.

2. Long Rise Investment Development Limited which is held in equal shares by Ms. Wong Kan Kan Kandy, an executive Director and one of the Controlling Shareholders and her father, is a connected person of the Group.

3. According to the Land Registry Search conducted on 12 July 2011, the Property was subject to the following encumbrances:

   (i) Occupation Permit No. KN2/2010/(OP) vide Memorial No. 10011902830165 dated 13 January 2010.

   (ii) Deed of Mutual Covenant and Management Agreement vide Memorial No. 10043002941012 dated 14 April 2010.

   (iii) Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 10051802440049 dated 21 April 2010.

4. According to Kwun Tong (South) Outline Zoning Plan No.S/K14S/16 dated September 2008, the Property was zoned for Other Specified Uses (Business) as at the date of valuation.

VALUATION CERTIFICATE

Group III — Property Interest Rented and Occupied by the Group in the PRC

	Property	Description, age and tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2011
3.	An industrial complex located at Baishigang Village, Changping Town, Dongguan City, Guangdong Province, the PRC (the "Property") (Lot No. 1924150600003)	The Property mainly comprises a 3-storey factory building, 2 blocks of 4-storey dormitory, a transformer room, a guardhouse and a boiler room completed in 2001. The total gross floor area ("GFA") of the Property is about 12,000 m^2. According to copy of the tenancy agreement, the GFA breakdown of the Property is as follows: **Description** — **GFA (m^2)** Factory — 5,913 Dormitory — 5,683 Transformer Room — 79 Guardhouse — 145 Boiler Room — 180 Total — 12,000 The site area of the Property is about 10,000.4 m^2. The Land Use Rights of the Property are allocated to Baishigang Village Committee (白石岗村委会) for industrial use for an unspecified land use rights term.	The Property was occupied by the Group for manufacturing purposes as at the date of inspection. The Group has rented and occupied the Property since 2005, under an indirect wholly owned subsidiary known as Fornton Holdings Company Limited (丰临控股有限公司). According to copies of the tenancy agreements, the Group leased the Property for 3 years commencing on 1 December 2010 and expiring on 30 November 2013 at a monthly rent of RMB69,600, exclusive of all other outgoings.	No commercial value

Notes:

1. According to copy of the State-owned Land Use Rights Certificate Dong Fu Ji Yong (2006) Di No. 1900241506379 (东府集用（2006）第特1900241506379号) dated 4 August 2008 issued by the People's Government of Dongguan City, the land use rights of the Property are allocated to Baishigang Village Committee (白石岗村委会) with the site area of about 10,000.4 m^2 for industrial use for an unspecified land use rights term.

2. According to copy of an undated tenancy agreement entered into between Baishigang Village Committee (白石岗村委会) and Zhou Hao Xiang (周浩祥) (collectively known as Party A), and Dongguan Fung Ching Knitting Company Limited (东莞丰正针织有限公司) (Party B), Party B has the first right of refusal for the renewal of the same lease term upon the expiry of the existing lease.

3. According to copy of a Confirmation Letter dated 24 March 2011 entered into between Baishigang Village Committee (白石岗村委会) and Zhou Hao Xiang (周浩祥) (collectively known as Party A), and Dongguan Fung Ching Knitting Company Limited (东莞丰正针织有限公司) (Party B), Party B has rented and occupied the Property with the site area and total gross floor area of about 10,000.4 m^2 and 12,000 m^2 respectively.

4. Dongguan Fung Ching Knitting Company Limited and Fornton Holdings Company Limited are indirect wholly-owned subsidiaries of the Group.

5. We have in the course of the valuation accepted and taken into account the following legal opinion provided by the Group's PRC Legal Adviser:

    (i) Baishigang Village Committee (白石岗村委会) has not obtained relevant building ownership certificate of the Property and thus it is illegal to lease the Property to any parties under the relevant laws and regulations in the PRC;

    (ii) The lessor of the Property should bear any resulting legal consequences and Fung Ching should not bear any liability thereform;

    (iii) There is a risk that the tenancy agreements may be deemed as void contracts;

    (iv) The leasing of the Property may be suspended if any third parties file an opposition thereto; and

    (v) The Group is entitled to claim for reduction or exemption of rental against the lessors if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property.

VALUATION CERTIFICATE

Group III — Property Interest Rented and Occupied by the Group in the PRC

	Property	Description, age and tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2011
4.	An industrial complex located at No. 189 Fuli East Road, Xiangwei Village, Hangwei District, Dongguan City, Guangdong Province, the PRC (the Property")	The Property mainly comprises a 4-storey factory building, a 4-storey dormitory, another 6-storey dormitory, a 3-storey staff quarters, a transformer room, a guardhouse, a toilet and a boiler room completed in 2000. The total gross floor area ("GFA") of the Property is about 21,237.36 m^2. The site area of the Property is about 11,435.11 m^2.	The Property was occupied by the Group for manufacturing purposes as at the date of inspection. The Group has rented and occupied the Property since 2000. According to copies of the tenancy agreement and its supplemental agreements, the Group leased the Property for 3 years from 1 January 2010 to 31 December 2012, at a monthly rent of RMB169,898.88, exclusive of all other outgoings.	No commercial value

Notes:

1. According to copy of the 4th Supplementary Tenancy Agreement dated 1 January 2010 entered into between Dongguan Dalang Xiangwei Industrial Development Company (东莞市大朗巷尾工业开发公司) (Party A) and Nice Regent Industries Limited (香港毅俊实业投资有限公司) (Party B), Party B has the first right of refusal for the lease renewal or acquisition of the Property, if Party A intends to lease or sell the Property upon the expiry of the existing lease.

2. Nice Regent Industries Limited (香港毅俊实业投资有限公司) is an indirect wholly-owned subsidiary of the Group.

3. We have in the course of the valuation accepted and taken into account the following legal opinion provided by the Group's PRC Legal Adviser:

   (i) Dongguan Dalang Xiangwei Industrial Development Company (东莞市大朗巷尾工业开发公司) has not obtained the State Owned Land Use Rights Certificate and Realty Title Certificate of the Property and thus it is illegal to lease the Property to any parties under the relevant laws and regulations in the PRC;

   (ii) The lessor of the Property should bear any resulting legal consequences and Nice Regent should not bear any liability therefrom;

   (iii) There is a risk that the tenancy agreement and its supplemental agreements may be deemed as void contracts;

   (iv) The leasing of the Property may be suspended in the event any third parties file an opposition thereto; and

   (v) The Group is entitled to claim for reduction or exemption of rental against the lessor if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property.

Set out below is a summary of certain provisions of the Memorandum and the Bye-laws of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed which are unrestricted and that the Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the "board") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on [●]. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated [●] (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda Company Law" in this Appendix.

(v) *Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a [●], a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) *Retirement, appointment and removal*

At each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the board as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) *Borrowing powers*

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designed [●] (as defined in the Bye-laws), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and not less than ten (10) clear business days has been given.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated [●] (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated [●] (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated [●] (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated [●] or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated [●] (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated [●] (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated [●] (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated [●] (as defined in the Bye-laws), has elapsed since such advertisement and the Designated [●] (as defined in the Bye-laws) has been notified of such intention. The net [●] of any such sale shall belong to the Company and upon receipt by the Company of such net [●], it shall become indebted to the former member of the Company for an amount equal to such net [●].

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' and not less than ten clear business days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account was paid up share capital of the company except that the share premium account may be applied by the company:

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the [●] of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the [●] arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a document in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed [●], there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed [●] may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed [●] (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 31 March 2035, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and [●] and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Bermuda Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this document. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in Bermuda under the Bermuda Companies Act as an exempted company with limited liability on 13 April 2011. The Company has established its principal place of business in Hong Kong at Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance. Ms. Wong Kan Kan, Kandy and Mr. Lee Sze Wai have been appointed as the authorised representatives of the Company for acceptance of service of process and notices on behalf of the Company in Hong Kong. The address for acceptance of service of process in Hong Kong of Ms. Wong Kan Kan, Kandy and Mr. Lee Sze Wai is Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company was incorporated in Bermuda and is subject to the laws of Bermuda. Its constitutive documents comprise the Memorandum and the Bye-laws. A summary of certain parts of its constitution and relevant aspects of Bermuda company law is set out in Appendix IV to this document.

2. Changes in share capital of the Company

The authorised share capital of the Company as at the date of its incorporation was HK$100,000 divided into 10,000,000 Shares of par value HK$0.01 each.

On 15 April 2011, 3,000 Shares of par value HK$0.01 each were allotted and issued nil paid to IAM as to 1,000 Shares, Ever Rosy as to 1,000 Shares and Premier Wise as to 1,000 Shares.

Pursuant to the [●], the authorised share capital of the Company was increased from HK$100,000 divided into 10,000,000 Shares to HK$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,990,000,000 Shares.

On [●], pursuant to the agreement for sale and purchase of the entire share capital of Wide Reach referred to in the section headed "Summary of material contracts" in this Appendix, IAM, Ever Rosy and Premier Wise transferred 3,000, 3,000 and 3,000 shares respectively in Wide Reach to the Company and in consideration of and in exchange for which, the Company allotted and issued 3,332,333, 3,332,334 and 3,332,333 Shares, credited as fully paid, to IAM, Ever Rosy and Premier Wise respectively and the Company credited as fully paid at par the 3,000 Shares issued nil-paid on [●]. Immediately following the above transfer, allotment and issue, the Company became owned as to approximately 33.3% by IAM, approximately 33.3% by Ever Rosy and approximately 33.3% by Premier Wise.

Assuming that the [●] becomes unconditional and the issue of Shares under the [●] and the [●] are made, but taking no account of any Shares falling to be issued upon the exercise of any options that may be granted under the [●], the authorised share capital of the Company will remain HK$100,000,000 divided into 10,000,000,000 Shares and [●]. Other than pursuant to the exercise of any options which may be granted under the [●], there is no present intention to issue any of the authorised but unissued share capital of the Company and no issue of Shares which would effectively alter the control of the Company will be made without the prior approval of members in a general meeting.

Save as disclosed in this document, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions of all the Shareholders passed on [●]

Pursuant to the written resolutions of all the Shareholders passed on [●]:

(a) the Company approved and adopted the Bye-laws as its new bye-laws;

(b) conditional on the same conditions as stated in the sub-section headed "Conditions of the [●]" in the section headed "Structure and Conditions of the [●]" in this document:

(i) the [●] was approved and the Directors were authorised to allot and issue the [●]; and

(ii) the rules of the [●] were approved and adopted and the Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto;

(c) conditional on the share premium account of the Company being credited as a result of the issue of [●] pursuant to the [●], the Directors were authorised to capitalise the amount of HK$3,020,000 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 302,000,000 Shares for allotment and issue to persons whose names appear on the register of members of the Company at the close of business on [●], pro rata to their then existing shareholdings in the Company;

(d) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than pursuant to Shares issued as a result of rights issue, scrip dividend scheme or upon the exercise of the options to be granted pursuant to the [●] or similar arrangement, Shares with an aggregate nominal value not exceeding (i) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued pursuant to the [●] and the [●] (excluding any Shares falling to be issued pursuant to the exercise of options that may be granted under the [●]) and (ii) the aggregate nominal amount of Shares repurchased under the authority granted to the Directors as referred to in paragraph (e) below, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable law of Bermuda to be held, or the revocation, variation or renewal by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest; and

(e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares on the [●] or any other [●] on which the Shares may be listed and recognised by the SFC and the [●] for this purpose with an aggregate nominal value of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued pursuant to the [●] and the [●] (excluding any Shares falling to be issued pursuant to the exercise of options that may be granted under the [●]), until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable law of Bermuda to be held, or the revocation, variation and renewal by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest.

4. Reorganisation

The companies in the Group underwent the Reorganisation of which involved the following:

(a) On 29 September 2010, Wide Reach, with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, was incorporated in the BVI as a BVI business company with limited liability.

(b) On [●], Mr. Yam and Madam Wong each transferred 1 ordinary share of HK$1.00 each in Fornton Holdings to Wide Reach and in consideration of and in exchange for which, Wide Reach allotted and issued (i) 1,000 shares, credited as fully paid to IAM at the direction of Mr. Yam and (ii) 1,000 shares, credited as fully paid, to Ever Rosy at the direction of Madam Wong.

(c) On [●], Mr. Yam and Madam Wong each transferred 1,000,000 ordinary shares of HK$1.00 each in Fornton Knitting to Wide Reach and in consideration of and in exchange for which, Wide Reach allotted and issued (i) 1,000 shares, credited as fully paid, to IAM at the direction of Mr. Yam and (ii) 1,000 shares, credited as fully paid, to Ever Rosy at the direction of Madam Wong.

(d) On [●], Mr. Yam and Mr. Wong transferred 3 ordinary shares and 7 ordinary shares, respectively, of HK$1.00 each in Nice Regent to Wide Reach and in consideration of and in exchange for which, Wide Reach allotted and issued (i) 600 shares, credited as fully paid, to IAM at the direction of Mr. Yam and (ii) 1,400 shares, credited as fully paid, to Premier Wise at the direction of Mr. Wong.

(e) On [●], IAM transferred 600 shares in Wide Reach to Premier Wise for cash at par.

(f) On [●], pursuant to the agreement for sale and purchase of the entire issued share capital of Wide Reach referred to in the section headed "Summary of material contracts" in this Appendix, IAM, Ever Rosy and Premier Wise transferred 3,000, 3,000 and 3,000 shares respectively in Wide Reach to the Company and in consideration of and in exchange for which, the Company allotted and issued 3,332,333 Shares, 3,332,334 Shares and 3,332,333 Shares, credited as fully paid, to IAM, Ever Rosy and Premier Wise respectively and the Company credited as fully paid at par the existing 3,000 nil-paid Shares.

5. Changes in share capital of subsidiaries

The Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this document.

Save as disclosed in the sub-section headed "Changes in the Shareholding and Group Structure" in the section headed "History, Reorganisation and Group Structure" in this document and in the paragraph headed "Reorganisation" in this Appendix, there has been no other change to the share capital of any of the subsidiaries of the Company within the two years immediately prior to the date of this document.

6. Repurchase by the Company of its own securities

The [●] permit companies with a primary listing on the [●] to repurchase their securities on the [●] subject to certain restrictions, the most important of which are summarised below:

(a) *Shareholders' approval*

[●]

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its Shareholders as a whole for the Company to have general authority from Shareholders to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

(c) *Funding of repurchases*

Repurchases by the Company must be funded out of funds legally available for such purpose in accordance with the Memorandum and the Bye-laws, the applicable laws and regulations of Bermuda and the [●]. A listed company is prohibited from repurchasing its own securities on the [●] for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the [●] from time to time. Subject to the foregoing, any repurchases by the Company may be made out of the capital paid up on the purchased shares or out of the funds of the Company otherwise available for dividend or distribution or out of the [●] of a fresh issue of Shares made for the purpose. Any premium payable on a repurchase over the par value of the Shares to be purchased must be provided for out of funds of the Company otherwise available for dividend or distribution or out of the Company' s share premium account.

(d) *Impact on repurchase*

On the basis of the current financial position of the Group as disclosed in this document and taking into account of the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this document. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

(e) *Directors' intention to sell Shares*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates currently intends to sell Shares to the Company or its subsidiaries.

(f) *Directors' undertaking*

The Directors have undertaken to the [●] that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the [●] and the applicable laws of Bermuda.

(g) *Connected parties*

[●]

(h) *Share repurchases made by the Company*

No repurchase of Shares has been made by the Company within six months prior to the date of this document.

(i) *Takeovers Code*

If as a result of a securities repurchase a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. The Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

(j) *Share capital*

[●]

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this document and are or may be material:

[●]

2. Intellectual property rights

(a) *Trademark*

As at the Latest Practicable Date, the Group has not registered any trademark.

(b) *Domain name*

As at the Latest Practicable Date, the Group has registered the following domain name:

Domain Name	Registered Owner	Expiry Date
www.fornton.com	Fornton Knitting	22 January 2016

Save as aforesaid, there are no other trademarks, patents or other intellectual or industrial property rights which are material in relation to the Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of interests

(a) Save as disclosed herein and in the sub-paragraph headed "Summary of material contracts" in this Appendix, none of the Directors or the experts named in the sub-paragraph headed "Qualifications of experts" in this Appendix has any direct or indirect interest in the promotion of the Company or in any assets acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this document.

(b) Save as disclosed in the sub-paragraph headed "Summary of material contracts" in this Appendix, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group.

2. Particulars of service agreements

Each of the executive Directors, namely, Madam Wong, Mr. Wong and Mr. Yam has entered into a service agreement with the Company for an initial term of three years, commencing from the [●] with an annual remuneration of approximately HK$1.4 million, HK$1.2 million and HK$0.5 million respectively. Either party has the right to give not less than three months' written notice to terminate the respective service agreement. In addition, each of these Directors will be entitled to a discretionary bonus to be calculated based on individual performance. Each of these Directors will also be reimbursed to all reasonable out-of-pocket expenses properly recurred by him/her in the performance of his/her duties as a Director.

Pursuant to the letter of appointment from the Company to each of the independent non-executive Directors dated [●], the appointment of each of Mr. Wang Wei Hung Andrew, Mr. Cheng Dickson and Mr. Sin Ka Man is for an initial term of three years commencing from the [●] with a director's fee of HK$100,000, HK$100,000 and HK$100,000 per annum respectively.

3. Directors' remuneration

Remuneration and benefits in kind of approximately HK$2,870,000 in aggregate were paid and granted by the Group to the Directors for the year ended 31 December 2010.

Under the current arrangements, the Directors will be entitled to receive remuneration which, for the financial year ending 31 December 2011, is expected to amount to approximately HK$[●], excluding the discretionary bonuses payable to the Directors.

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, workload and the time devoted to the Group.

4. [●]

5. [●]

6. Personal guarantees

During the Track Record Period, (i) Mr. Yam, Madam Wong and Mr. Wong acted as guarantors of certain banking facilities of the Group to the extent of HK$30 million, HK$30 million and HK$85 million respectively, (ii) at the end of each reporting period, certain banking facilities of the Group was secured by a property held by Mr. Wong and (iii) during the year ended 31 December 2010, certain banking facilities of the Group was secured by property owned by Long Rise. It is expected that the said guarantees by Mr. Yam, Madam Wong and Mr. Wong and the security over the properties held by Long Rise and Mr. Wong shall be released upon [●]. During the Track Record Period, the above said banking facilities has been utilised by the Group as follows:

(1) During the three years ended 31 December 2008, 31 December 2009, 31 December 2010 and the four months ended 30 April 2011, Mr. Yam, Madam Wong, and Mr. Wong acted as guarantors of trust receipts loans in favour of the Group which amounted to HK$1,023,000, HK$498,000 and HK$6,235,000 and HK$18,000,000 respectively.

(2) During the year ended 31 December 2010, the Group obtained a mortgage loan of HK$30,386,000 which is guaranteed by Mr. Yam, Madam Wong and Mr. Wong and secured by a legal charge over a property owned by Long Rise.

(3) During the year ended 31 December 2010 and the four months ended 30 April 2011, the Group obtained other bank loans which amounted to a total of HK$7,340,000 and are guaranteed by Mr. Yam and Madam Wong.

(4) During the Track Record Period, the Group has banking facilities secured by a property held by Mr. Wong, the balance of which accounted to HK$[51,861,000] as at 30 April 2011.

Save as disclosed above, none of the Directors has provided any personal guarantee nor executed at any charges over their properties in favour of any banks or other third parties for banking facilities or other financial accommodation granted to any member of the Group.

7. Agency fees or commissions

Save as disclosed in this document, within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.

8. Disclaimers

Save as disclosed in this document,

(a) none of the Directors or chief executive of the Company has any interest and/or short position in the Shares, underlying shares, listed or unlisted derivatives of or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which will have to be notified to the Company and the [●] pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which would be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in [●], to be notified to the Company;

(b) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;

(c) none of the Directors or the experts named in the paragraph headed "Qualifications of experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired, disposed of by or leased to any member of the Group;

(d) none of the Directors is materially interested in any contract or arrangement subsisting as at the date of this document which is significant in relation to the business of the Group taken as a whole;

(e) taking no account of any Shares which may be taken up under the [●], the Directors are not aware of any person (not being a Director or chief executive of the Company) who immediately following the completion of the [●] and the [●] will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group; and

(f) none of the experts named in the paragraph headed "Qualifications of experts" in this Appendix has 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 or is an officer or servant or in employment of an officer or servant of the Group.

D. [●]

Summary of terms

The following is a summary of the principal terms of the [●] adopted pursuant to the written resolutions of all the Shareholders passed on [●].

[●]

E. OTHER INFORMATION

1. Indemnity

IAM, Ever Rosy, Premier Wise, Mr. Yam, Madam Wong and Mr. Wong (collectively the "Indemnifiers") have entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its subsidiaries) whereby they have given joint and several indemnities in connection with, among other matters:

(a) any taxation falling on any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the conditions set out in the section headed "Structure and conditions of the [●]" of this document are fulfilled, save:

(i) to the extent that provision has been made for such taxation in the audited combined accounts of the Group or the audited accounts of any member of the Group for an accounting period ended on or before [●];

(ii) taxation falling on any of the members of the Group in respect of any accounting period commencing on or after [●] unless liability for such taxation would not have arisen but for some act or omission of, or transaction entered into by, the Indemnifiers, members of the Group or any of them (whether alone or in conjunction with some other act, omission or transaction, whenever occurring), otherwise than in the ordinary course of business, or in the ordinary course of acquiring or disposing of capital assets, on or before the date on which the conditions set out in the section headed "Structure and conditions of the [●]" of this document are fulfilled;

(iii) to the extent that such taxation arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by the Inland Revenue Department or any other statutory or governmental authority (in Bermuda, BVI, Hong Kong or elsewhere) having retrospective effect coming into force after the date on which the conditions set out in the section headed "Structure and conditions of the [●]" of this document are fulfilled or to the extent that such taxation arises or is increased by an increase in rates of taxation after the date on which the conditions set out in the section headed "Structure and conditions of the [●]" of this document are fulfilled with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of Bermuda, BVI or anywhere else in the world on the profits of companies for the current or any earlier financial period);

(iv) to the extent that such taxation is discharged by another person who is not a member of the Group and that no member of the Group is required to reimburse such person in respect of the discharge of the taxation; or

(v) to the extent of any provision or reserve made for taxation in the audited accounts referred to in sub-paragraph (i) above which is finally established to be an over-provision or an excessive reserve, provided that the amount of any such provision or reserve applied to reduce the liability of the Indemnifiers or any of them in respect of taxation shall not be available in respect of any such liability arising thereafter.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in Bermuda and other jurisdiction in which the companies comprising the Group are incorporated.

2. Litigation

In February 2007, a writ was issued against Fornton Knitting claiming for an aggregate amount of HK$1,118,289.68 together with interest being the costs of yarn sold and delivered to Fornton Knitting. Subsequently, Fornton Knitting filed a defence and counterclaim to the said writ stating that Fornton Knitting is not liable to pay the costs of yarn as the yarn so delivered was defective and that the plaintiff had refused to amend such defects. Fornton Knitting further claimed for an unliquidated amount of loss and damages arising from the defective yarn supplied by the plaintiff. As at the Latest Practicable Date, trial had already taken place and the case is currently pending judgment being handed down.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group.

4. [●]

[●]

5. Preliminary expenses

The estimated preliminary expenses of the Company are approximately HK$20,000 and are payable by the Company.

6. Promoter

The Company has no promoter for the purposes of [●].

10. Miscellaneous

(a) Save as disclosed in this document,

(i) within the two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(iii) within the two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iv) there has been no material adverse change in the financial position or prospects of the Group since 30 April 2011 (being the date to which the latest audited consolidated financial statements of the Group were made up); and

(v) within the two years preceding the date of this document, no commission has been paid or payable (except commission to sub-[●]) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares of the Company or any of its subsidiaries.

(b) The Company has no founder shares, management shares or deferred shares.

(c) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 24 months immediately preceding the date of this document.

(d) All necessary arrangements have been made to enable the Shares to be admitted into [●] for clearing and settlement.

(e) The principal register of members of the Company will be maintained in Bermuda and a branch register of members of the Company will be maintained in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with, and registered by [●].

(f) Codan Services Limited, the Company's Bermuda resident representative, is affiliated with Conyers Dill & Pearman, the Company's Bermuda legal advisers, which will receive usual professional fees in connection with the incorporation of the Company and the [●].