EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永 義 國 際 集 團 有 限 公 司

Interim Report

中期業績報告

2005

The board of directors of Easyknit International Holdings Limited (the "Company") is pleased to present the unaudited condensed financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2005 together with comparative figures. These interim financial statements have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	NOTES	**Six months ended 30 September**	
		2005	**2004**
		HK$'000	*HK$'000*
		(Unaudited)	*(Unaudited)*
			(Restated)
Turnover	4	261,836	255,711
Cost of sales		(214,046)	(195,032)
Gross profit		47,790	60,679
Other operating income		3,630	2,879
Gain on fair value changes of investment properties		157,030	—
Loss on fair value changes of investments at fair value through profit or loss		(151,070)	—
Unrealised gain on other investments		—	28,670
Distribution costs		(6,182)	(11,335)
Administrative expenses		(23,684)	(27,448)
Impairment loss on trade and other receivables	6	(33,302)	(4,323)
Loss on disposal of investment properties		(1,136)	—
(Loss) profit from operations	4 & 5	(6,924)	49,122
Gain on disposal of subsidiaries		—	30,884
Share of results of associates		(2,496)	2,819
Finance costs	7	(3,115)	(1,689)
(Loss) profit before taxation		(12,535)	81,136
Taxation	8	(1,403)	(5,310)
(Loss) profit for the period attributable to equity holders of the Company		(13,938)	75,826
Basic (loss) earnings per share	9	(1.05)HK cents	6.74 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2005

	NOTES	**30 September 2005**	**31 March 2005**
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited)*
			(Restated)
Non-current assets			
Property, plant and equipment	11	24,395	24,435
Investment properties	12	557,000	619,970
Club debenture		921	921
Interests in associates		65,024	15,729
		647,340	661,055
Current assets			
Properties held for sale		16,248	21,624
Investments at fair value through profit or loss		101,262	—
Other investments		—	244,030
Inventories		7,764	2,423
Trade and other receivables	13	93,841	196,213
Loans receivable		145,662	71,875
Bills receivable		32,792	44,925
Tax recoverable		2,051	2,051
Bank balances and cash		215,777	83,901
		615,397	667,042

CONDENSED CONSOLIDATED BALANCE SHEET *(Cont'd)*
AT 30 SEPTEMBER 2005

	NOTES	**30 September 2005** *HK$'000* *(Unaudited)*	**31 March 2005** *HK$'000* *(Audited)* *(Restated)*
Current liabilities			
Trade and other payables	14	37,497	37,118
Bills payable		7,403	1,564
Consideration repayable on disposal of subsidiaries	18	—	11,120
Tax payable		24,438	23,727
Obligations under finance leases - amount due within one year		8	18
Secured borrowings - amount due within one year		107,572	120,986
		176,918	194,533
Net current assets		438,479	472,509
		1,085,819	1,133,564
Capital and reserves			
Share capital	15	132,367	132,367
Reserves		901,253	921,321
		1,033,620	1,053,688
Non-current liabilities			
Secured borrowings - amount due after one year		37,994	66,363
Deferred tax liabilities	16	14,205	13,513
		52,199	79,876
		1,085,819	1,133,564

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Capital reserve**	**Exchange reserve**	**Special reserve**	**Contributed surplus**	**Accumulated (losses) profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004								
- as previously stated	88,245	1,117,131	895,932	—	9,800	—	(1,443,893)	667,215
- effect of changes in accounting policies (see note 3)	—	—	—	—	—	—	(3,912)	(3,912)
- as restated	88,245	1,117,131	895,932	—	9,800	—	(1,447,805)	663,303
Profit for the year and total recognised income for the year	—	—	—	—	—	—	348,469	348,469
Reductions of share premium and capital reserve and offsetting of accumulated losses (see note 17)	—	(1,117,131)	(895,932)	—	—	227,555	1,785,508	—
Rights issue of shares at a price of HK$0.11 per rights share	44,122	4,412	—	—	—	—	—	48,534
2004 final dividend paid (see note 10)	—	—	—	—	—	(6,618)	—	(6,618)
At 31 March 2005	132,367	4,412	—	—	9,800	220,937	686,172	1,053,688
At 1 April 2005								
- as previously reported	132,367	4,412	—	—	9,800	220,937	697,968	1,065,484
- effect of changes in accounting policies (see note 3)	—	—	—	—	—	—	(11,796)	(11,796)
- as restated	132,367	4,412	—	—	9,800	220,937	686,172	1,053,688
Share of exchange reserve of associates	—	—	—	488	—	—	—	488
Net gain recognised directly in equity	—	—	—	488	—	—	—	488
Loss for the period	—	—	—	—	—	—	(13,938)	(13,938)
Total recognised income and expense for the period	—	—	—	488	—	—	(13,938)	(13,450)
2005 final dividend paid (see note 10)	—	—	—	—	—	—	(6,618)	(6,618)
At 30 September 2005	132,367	4,412	—	488	9,800	220,937	665,616	1,033,620
At 1 April 2004								
- as previously stated	88,245	1,117,131	895,932	—	9,800	—	(1,443,893)	667,215
- effect of changes in accounting policies (see note 3)	—	—	—	—	—	—	(3,912)	(3,912)
- as restated	88,245	1,117,131	895,932	—	9,800	—	(1,447,805)	663,303
Profit for the period and total recognised income for the period	—	—	—	—	—	—	75,826	75,826
Reductions of share premium and capital reserve and offsetting of accumulated losses (see note 17)	—	(1,117,131)	(895,932)	—	—	227,555	1,785,508	—
Rights issue of shares at a price of HK$0.11 per rights share	44,122	4,412	—	—	—	—	—	48,534
2004 final dividend paid (see note 10)	—	—	—	—	—	(6,618)	—	(6,618)
At 30 September 2004	132,367	4,412	—	—	9,800	220,937	413,529	781,045

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Six months ended 30 September	
	2005	**2004**
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net cash from (used in) operating activities	103,579	(7,273)
Net cash from investing activities		
Net cash outflow from advance of loans	(73,787)	(2,048)
Proceeds on disposal of investment properties	218,864	—
Capital contribution to associates	(51,303)	—
Acquisition of investments at fair value through profit or loss/other investments	(8,302)	(48,973)
Proceeds from disposal of other investments	—	5,158
Payment of consideration repayable on disposal of subsidiaries	(11,120)	—
Consideration received on disposal of a subsidiary	—	39,500
Disposal of subsidiaries, net of cash and cash equivalents disposal of	—	49,352
Other investing activities	2,356	(580)
	76,708	42,409
Net cash used in financing activities	(48,411)	(34,046)
Net increase in cash and cash equivalents	131,876	1,090
Cash and cash equivalents at beginning of the period	83,901	67,357
Cash and cash equivalents at end of the period, represented by bank balances and cash	215,777	68,447

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

1. GENERAL AND BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The principal accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as disclosed below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of share of tax of associates has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expenses to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 April 2005 in accordance with the relevant transitional provisions. As all share options of the Group were granted on or after 7 November 2002 and had lapsed before 1 April 2005, there is no financial effect on the profit or loss for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". The application of HKAS 32 has had no material impact on how financial instruments are presented for current and prior periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any).

From 1 April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in the profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group reclassified its "other investments" with carrying amount of HK$244,030,000 to "investments at fair value through profit or loss" and measured them in accordance with the requirements of HKAS 39. No adjustment has been made to the Group's accumulated profits at 1 April 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. No adjustment has been made to the Group's accumulated profits at 1 April 2005.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 April 2005. As a result, the Group's bills receivable discounted with full recourse which were derecognised prior to 1 April 2005 have not been restated. The Group's bills receivable discounted with full recourse on or after 1 April 2005 have not been derecognised. Instead, the related borrowings of HK$10,672,000 have been recognised on the consolidated balance sheet as at 30 September 2005. This change has had no material effect on the results for the current period.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. In the opinion of the directors, the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The application of HKAS 40 has no material impact on the Group's accumulated profits at 1 April 2005.

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HK(SIC) Interpretation 21 "Income Taxes - Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	Six months ended 30 September 2005 *HK$'000*	2004 *HK$'000*
Increase in gain on fair value changes of investment properties	157,030	—
Increase in deferred tax liabilities relating to investment properties	(707)	(80)
Increase (decrease) in profit for the period	156,323	(80)

The cumulative effects of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

	31.3.2005 *HK$'000 (previously stated)*	Adjustments *HK$'000*	31.3.2005 *HK$'000 (restated)*	Adjustments *HK$'000*	1.4.2005 *HK$'000 (restated)*
Balance sheet items					
Other investments	244,030	—	244,030	(244,030)	—
Investments at fair value through profit or loss	—	—	—	244,030	244,030
Deferred tax liabilities	(1,717)	(11,796)	(13,513)	—	(13,513)
Total effects on assets and liabilities		(11,796)		—	
Accumulated profits and total effect on equity	697,968	(11,796)	686,172	—	686,172
		(11,796)		—	

The cumulative effects of the application of the new HKFRSs as at 31 March 2004 are summarised below:

	31.3.2004 *HK$'000 (previously stated)*	Adjustments *HK$'000*	31.3.2004 *HK$'000 (restated)*
Deferred tax liabilities	(510)	(3,912)	(4,422)
Total effect on liabilities		(3,912)	
Accumulated losses and total effect on equity	(1,443,893)	(3,912)	(1,447,805)
		(3,912)	

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into four main operating divisions - garment sourcing and export, property investment, investment in securities and loan financing. These divisions are the bases on which the Group reports its primary segment information. The division of bleaching and dyeing was discontinued in May 2004.

	Continuing operations					
	Garment sourcing and export	**Property investment**	**Investment in securities**	**Loan financing**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 September 2005						
Turnover						
External	243,568	18,268	—	—	—	261,836
Inter-segment	—	1,655	—	—	(1,655)	—
	243,568	19,923	—	—	(1,655)	261,836
Result						
Segment result and (loss) profit from operations	(24,671)	168,993	(151,070)	1,688	(1,864)	(6,924)

	Continuing operations				Discontinued operation		
	Garment sourcing and export	**Property investment**	**Investment in securities**	**Loan financing**	**Bleaching and dyeing**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 September 2004							
Turnover							
External	210,803	37,932	—	—	6,976	—	255,711
Inter-segment	—	1,500	—	—	7	(1,507)	—
	210,803	39,432	—	—	6,983	(1,507)	255,711
Result							
Segment result and profit (loss) from operations	6,277	13,408	29,589	755	(258)	(649)	49,122

5. (LOSS) PROFIT FROM OPERATIONS

	Six months ended 30 September 2005 HK$'000	2004 HK$'000
(Loss) profit from operations has been arrived at after charging:		
Depreciation and amortisation on:		
- property, plant and equipment	639	961
- permanent textile quota entitlements	—	761

6. IMPAIRMENT LOSS ON TRADE AND OTHER RECEIVABLES

During the period, an impairment loss on trade and other receivables of HK$33,302,000 was provided in respect of the deposits to a supplier paid by the Group as a result of the voluntary liquidation of such supplier.

7. FINANCE COSTS

	Six months ended 30 September 2005 HK$'000	2004 HK$'000
Interest on borrowings wholly repayable within five years	3,115	1,689

8. TAXATION

	Six months ended 30 September 2005 HK$'000	2004 HK$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	711	4,986
Deferred tax charge (note 16)	692	324
Taxation attributable to the Company and its subsidiaries	1,403	5,310

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 September 2004: 17.5%) of the estimated assessable profit for the period.

9. BASIC (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2005	**2004**
	HK$'000	*HK$'000*
(Loss) earnings for the purposes of basic (loss) earnings per share attributable to equity holders of the Company	(13,938)	75,826

	Six months ended 30 September	
	2005	**2004**
Number of shares		
Number/weighted average number of shares for the purposes of basic (loss) earnings per share	1,323,673,386	1,124,893,809

No diluted loss per share has been presented as the Company has no potential ordinary shares outstanding during the six months ended 30 September 2005.

No diluted earnings per share had been presented because the exercise price of the Company's options were higher than the average market price per share during the six months ended 30 September 2004.

10. DIVIDEND

During the period, a final dividend of HK0.5 cent per share for the year ended 31 March 2005 (year ended 31 March 2004: HK0.5 cent) was paid to shareholders.

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (six months ended 30 September 2004: nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK$599,000 (six months ended 30 September 2004: HK$1,549,000) on acquisition of property, plant and equipment. No property, plant and equipment was disposed of during the six months ended 30 September 2005. For the six months ended 30 September 2004, the Group disposed of property, plant and equipment of HK$14,539,000, of which HK$14,529,000 was related to disposal of subsidiaries.

12. INVESTMENT PROPERTIES

The Group's investment properties are held for rental purposes under operating leases. They were valued by Messrs. Knight Frank, a firm of independent professional valuers, on market value basis. The gain arising from changes in fair value of the investment properties of HK$157,030,000 has been recognised in the income statement for the six months ended 30 September 2005 (six months ended 30 September 2004: nil).

13. TRADE AND OTHER RECEIVABLES

	30 September 2005 HK$'000	31 March 2005 HK$'000
Trade receivables	15,197	34,682
Deposits to suppliers	69,762	153,748
Other receivables	8,882	7,783
	93,841	196,213

The Group allows an average credit period ranging from 30 to 90 days to its trade customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	30 September 2005 HK$'000	31 March 2005 HK$'000
0 - 60 days	11,800	28,665
61 - 90 days	1,352	2,742
Over 90 days	2,045	3,275
	15,197	34,682

14. TRADE AND OTHER PAYABLES

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

	30 September 2005 HK$'000	31 March 2005 HK$'000
0 - 60 days	21,788	9,507
61 - 90 days	43	14
Over 90 days	161	337
	21,992	9,858

15. SHARE CAPITAL

	Nominal value per share HK$	Number of shares	Amount HK$'000
Authorised:			
At 1 April 2004	0.10	30,000,000,000	3,000,000
Reduction of authorised share capital	0.10	(20,000,000,000)	(2,000,000)
At 30 September 2004, 31 March 2005 and 30 September 2005	0.10	10,000,000,000	1,000,000
Issued and fully paid:			
At 1 April 2004	0.10	882,448,924	88,245
Rights issue of shares at a price of HK$0.11 per rights share	0.10	441,224,462	44,122
At 30 September 2004, 31 March 2005 and 30 September 2005	0.10	1,323,673,386	132,367

16. DEFERRED TAXATION

Major deferred tax liabilities and assets recognised and movements thereon are as follows:

	Accelerated tax depreciation HK$'000	Investment properties HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April 2004	100	13,653	(9,331)	4,422
Charge (credit) to income statement	156	478	(310)	324
At 30 September 2004	256	14,131	(9,641)	4,746
Charge to income statement	2	8,072	693	8,767
At 31 March 2005	258	22,203	(8,948)	13,513
Charge (credit) to income statement	25	16,764	(16,097)	692
At 30 September 2005	283	38,967	(25,045)	14,205

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset.

At the balance sheet date, the deductible temporary differences not recognised were analysed as follows:

	30 September 2005 HK$'000	31 March 2005 HK$'000
Tax losses	151,767	99,983
Miscellaneous allowance	16,850	16,850
	168,617	116,833

At 30 September 2005, the Group has unused tax losses of HK$294,881,000 (31.3.2005: HK$151,114,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$143,114,000 (31.3.2005: HK$51,131,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$151,767,000 (31.3.2005: HK$99,983,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except losses of HK$28,481,000 (31.3.2005: HK$28,481,000) which will be expired as follows:

	30 September 2005 HK$'000	31 March 2005 HK$'000
Year of expiry:		
2022	1,821	1,821
2023	2,163	2,163
2024	11,225	11,225
2025	13,272	13,272
	28,481	28,481

17. RESERVES

As announced by the Company on 26 July 2004, the Company proposed to effect the reductions of certain reserves of the Company as follows:

(i) the entire amount standing to the credit of the share premium account and the capital reserve account of the Company will be reduced; and

(ii) part of the credits arising from (i) above in the sum of HK$1,785,508,000 will be applied to offset the accumulated losses of the Company as at 31 March 2004 in full and the remaining balance of HK$227,555,000 will be transferred to the contributed surplus account of the Company.

Details of the proposal are set out in the circular dated 30 July 2004 issued by the Company. The resolution approving the proposal was passed at the special general meeting of the Company held on 23 August 2004.

18. DISPOSAL OF SUBSIDIARIES

During the six months ended 30 September 2004, the Group agreed to sell the entire issued shares of Po Cheong International Enterprises Limited ("Po Cheong"), a wholly-owned subsidiary of the Company, to a wholly-owned subsidiary of Asia Alliance Holdings Limited ("Asia Alliance"), an associate of the Group, at a consideration of HK$65,000,000, subject to adjustment, as described in the sale and purchase agreement dated 5 March 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The consideration shall be satisfied in cash, of which HK$50,000,000 was received by the Group on 13 May 2004 and the remaining balance of HK$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004). The adjustment was finalised on 16 June 2005 and the revised consideration was determined to be HK$38,880,000 and accordingly, an amount of HK$11,120,000 was recognised as consideration repayable in the consolidated balance sheet at 31 March 2005. The amount was fully repaid during the period.

The results of the discontinued operations were as follows:

	Six months ended 30 September	
	2005	**2004**
	HK$'000	*HK$'000*
Turnover	—	6,983
Cost of sales	—	(6,465)
Gross profit	—	518
Other operating income	—	15
Distribution costs	—	(113)
Administrative expenses	—	(678)
Loss from operations	—	(258)
Finance costs	—	(17)
Loss for the period	—	(275)

18. DISPOSAL OF SUBSIDIARIES *(Cont'd)*

The net assets of the subsidiaries at the date of disposal were as follows:

	HK$'000
Net assets disposed of	16,571
Gain on disposal of subsidiaries	
- realised	14,149
- unrealised	7,935
Total consideration	38,655
Satisfied by:	
Cash consideration	
- Cash received	50,000
- Consideration repayable	(11,120)
Expenses incurred in connection with the disposal of subsidiaries	(225)
	38,655
Net cash inflow of cash and cash equivalent in respect of the disposal of subsidiaries:	
Cash received	50,000
Expenses incurred in connection with the disposal of subsidiaries	(225)
Bank balances and cash disposed of	(423)
	49,352

19. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

(a) During the period, the Group had the following transactions carried out at prices determined by reference to market prices for similar transactions with related parties/persons deemed to be "connected persons" by the Stock Exchange, being entities controlled by certain relatives of Mr. Koon Wing Yee and his spouse, Ms. Lui Yuk Chu, both of whom are directors of the Company:

	Six months ended 30 September	
	2005	**2004**
	HK$'000	*HK$'000*
Sales of fabric	—	683
Sales of garments	5,180	503
Bleaching and dyeing charges received	—	295
Rental income	37	—
Purchases of garments	114,962	104,777

At the balance sheet date, amounts due from these entities comprise:

	30 September 2005	**31 March 2005**
	HK$'000	*HK$'000*
Trade receivables	17	11,923
Deposits paid	11,995	83,553
Trade and other receivables	12,012	95,476

19. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS *(Cont'd)*

(b) In May 2004, the Group disposed of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK$65,000,000, subject to adjustment, as described in the sale and purchase agreement dated 5 March 2004. The consideration has been subsequently adjusted downwards to HK$38,880,000 on 16 June 2005. Details of the transaction are set out in note 18.

(c) On 20 September 2004, Easyknit Properties Holdings Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Messrs. Koon Wing Yee and Tsang Yiu Kai, the directors of the Company, to acquire the entire issued shares of Easyknit Properties Management Limited ("EPML") from them at a cash consideration of approximately HK$15,000.

(d) Prior to the acquisition of the entire issued shares of EPML, the Group provided administrative services to ePML in which Messrs. Koon Wing Yee and Tsang Yiu Kai, both are directors of the Company, have beneficial interests and received service income of HK$117,000 from that company for the six months 30 September 2004 (six months ended 30 September 2005: nil). The service income was determined based on mutually agreed terms.

(e) During the six months ended 30 September 2005, the Group provided administrative services to Asia Alliance, a company in which Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, all are directors of the Company, have beneficial interests, and received service income of HK$120,000 from Asia Alliance (six months ended 30 September 2004: HK$121,000). The service income was determined based on mutually agreed terms.

(f) The remuneration of directors and other members of key management during the period amounted to HK$3,104,000 (six months ended 30 September 2004: HK$4,007,000).

20. CONTINGENT LIABILITIES

	30 September 2005 *HK$'000*	**31 March 2005** *HK$'000*
Bills discounted with recourse	—	3,441

21. POST BALANCE SHEET EVENT

On 17 October 2005, the Group made an application for 34,100,000 excess rights shares of Capital Estate Limited, a company listed on the Stock Exchange, and was allotted 33,286,000 rights shares of Capital Estate Limited at HK$1 each, representing approximately 12.67% of the issued share capital of Capital Estate Limited as enlarged by the rights issue of Capital Estate Limited on the basis of four rights shares for every share held. Details of this transaction are set out, inter alia, in the circular of the Company dated 14 November 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2005, the Group recorded a turnover of approximately HK$261,836,000, representing an increase of approximately 2.4% as compared to approximately HK$255,711,000 for the same period last year. The increase was mainly attributable to the increase in sales volume of garments during the period.

Gross profit was approximately HK$47,790,000, representing a decrease of approximately 21.2% as compared to approximately HK$60,679,000 for the same period last year, primarily because of shrinking profit margins amid increasingly fierce competition in the garment sourcing and export industry.

The Group recorded a loss from operations of approximately HK$6,924,000 (six months ended 30 September 2004: a profit from operations of approximately HK$49,122,000) and a net loss attributable to shareholders of approximately HK$13,938,000 (six months ended 30 September 2004: a net profit of approximately HK$75,826,000), largely due to the loss on fair value changes of investments at fair value through profit or loss of approximately HK$151,070,000, impairment loss on trade and other receivables of approximately HK$33,302,000, loss on disposal of investment properties of approximately HK$1,136,000, share of the loss of associates of approximately HK$2,496,000 and substantial increase in finance costs for the period under review. This was partly offset by the gain on fair value changes of investment properties of approximately HK$157,030,000. Loss per share was approximately 1.05 HK cents (six months ended 30 September 2004: earnings per share of approximately 6.74 HK cents).

Cost of sales rose by approximately 9.7% to approximately HK$214,046,000 from approximately HK$195,032,000 for the corresponding period last year, reflecting the increase in sales for the period under review. Coupled with stringent cost control measures, the total operating expenses reduced by approximately 23.0% to approximately HK$29,866,000 (six months ended 30 September 2004: approximately HK$38,783,000).

Finance costs increased significantly by approximately 84.4% to approximately HK$3,115,000 (six months ended 30 September 2004: approximately HK$1,689,000), principally due to the increase in interest rate during the period under review.

Business Review

During the six months ended 30 September 2005, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women and property investment.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Business Review *(Cont'd)*

Garment sourcing and export

During the period under review, garment sourcing and export remained the major business of the Group and contributed approximately 93.0% to the Group's total turnover, an approximately 10.6% increase over the same period last year of approximately 82.4%. Turnover from this segment augmented by approximately 15.5% to approximately HK$243,568,000 as compared to approximately HK$210,803,000 for the same period in 2004. However, this segment suffered a loss of approximately HK$24,671,000 (six months ended 30 September 2004: a profit of approximately HK$6,277,000), largely due to the impairment loss on trade and other receivables of approximately HK$33,302,000. The Group continued to alter its product mix to cater for the changes in customer needs. The product mix of infant wear and ladies wear changed from 48:44 for the six months ended 30 September 2004 to 40:39 for the parallel period this year.

Geographically, the United States of America (the "US") continued to be the Group's major export market, from which approximately 87.2% of the Group's total turnover was generated (six months ended 30 September 2004: approximately 75.7%).

The Hong Kong, Mexican and Canadian markets accounted for approximately 7.0%, 5.6% and 0.2% of the Group's total turnover respectively.

Property investment

During the period under review, the property investment segment contributed approximately HK$18,268,000 or 7.0% (six months ended 30 September 2004: approximately HK$37,932,000 or 14.8%) to the Group's total turnover. Profit of this segment surged approximately 11.6 times to approximately HK$168,993,000 (six months ended 30 September 2004: approximately HK$13,408,000), principally due to the gain on fair value changes of investment properties of approximately HK$157,030,000 during the period under review. Despite the disposal of two properties in The Annex Land Building of Excelsior Plaza, Causeway Bay, Hong Kong (the "Properties") on 3 August 2005, investment properties, all of which are located in Hong Kong, continued to provide a stable flow of income to the Group with a turnover of approximately HK$12,008,000 (six months ended 30 September 2004: approximately HK$12,623,000). The average rental income decreased nearly 5.0 %. As at 30 September 2005, the Group's commercial rental properties were 100% leased. Its industrial rental properties also maintained a high occupancy rate of over 86%. The building management fee income was approximately HK$130,000 (six months ended 30 September 2004: Nil).

The sale of residential units of Fa Yuen Plaza in Mongkok generated approximately HK$6,130,000 cash inflow to the Group during the period under review (six months ended 30 September 2004: approximately HK$25,309,000). At the period end date, approximately 86% of the available units were sold with the average selling price per square foot gross floor area increased from approximately HK$3,500 for the six months ended 30 September 2004 to approximately HK$3,900 for the same period this year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Business Review *(Cont'd)*

Property investment *(Cont'd)*

As at 30 September 2005, the Group's entire portfolio stood over HK$573,248,000 (31 March 2005: approximately HK$641,594,000).

Prospects

Garment sourcing and export

Although the re-imposition of the textile quotas by the US and the European Union still affects the Group's garment export business, the directors anticipate that the garment business of the Group will remain stable in the second half of the financial year ended 31 March 2006 based on the existing orders on hand. Efforts are being made to promote the Group's garment brand name of "Mary Mac" targeting the fast growing PRC market through its regional office in New York. The Group will endeavour to extend its reach into other Asian markets so as to expand its sales network and to reduce our reliance on the US market.

Property investment

The local property market is expected to be benefited from the upturn of Hong Kong's economy. With the opening of Disneyland and the extension of the "Individual Visit Scheme" for Mainland visitors, the tourism in Hong Kong will also grow steadily. These favourable factors are likely to lead to rent increases, especially for retail shops located in prime areas such as Causeway Bay, Tsimshatsui and Mongkok, and bring in considerable revenue to the Group. The Group will extend its investment property portfolio when opportunities arise.

Liquidity and Financial Resources

During the six months ended 30 September 2005, the Group financed its operations mainly by the net proceeds from the disposal of the Properties (as defined in "Business Review" above), internally generated resources and bank borrowings. The Group's total bank borrowings (but excluding obligations under finance leases) declined by approximately 22.3% to approximately HK$145,566,000 at the period end date (31 March 2005: approximately HK$187,349,000), of which approximately 73.9% being short-term borrowings and approximately 26.1% being long-term borrowings. All the loans are secured and denominated in Hong Kong dollars with prevailing market interest rates. The Group's borrowings are mostly event driven, with little seasonality. As at 30 September 2005, the shareholders' fund of the Group amounted to approximately HK$1,033,620,000 (31 March 2005: approximately HK$1,053,688,000). The Group's gearing ratio, which was calculated on the basis of the total borrowings to the shareholders' fund, decreased from approximately 0.18 as at 31 March 2005 to approximately 0.14 as at 30 September 2005.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Liquidity and Financial Resources *(Cont'd)*

The Group continued to sustain a good liquidity position. As at 30 September 2005, the Group had net current assets of approximately HK$438,479,000 (31 March 2005: approximately HK$472,509,000) and cash and cash equivalents of approximately HK$215,777,000 (31 March 2005: approximately HK$83,901,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and US dollars. As at 30 September 2005, the current ratio of the Group was approximately 3.48 (31 March 2005: approximately 3.43), which was calculated on the basis of current assets of approximately HK$615,397,000 (31 March 2005: approximately HK$667,042,000) to current liabilities of approximately HK$176,918,000 (31 March 2005: approximately HK$194,533,000). The current ratio remained stable, primarily due to the increase in current assets, mainly resulting from the proceeds from the disposal of the Properties of HK$218,864,000, was largely offset by the loss on fair value changes of investments at fair value through profit or loss of approximately HK$151,070,000, capital contribution to associates of approximately HK$51,303,000, repayment of borrowings of approximately HK$61,710,000, acquisition of securities investment of approximately HK$8,302,000 and refund of consideration of approximately HK$11,120,000 by the Group in connection with the disposal of subsidiaries. During the period under review, the Group serviced its debts primarily through the proceeds from the disposal of the Properties and internally generated resources. Final dividend for the year ended 31 March 2005 amounting to approximately HK$6,618,000 was paid in September 2005.

The directors believe that the Group has sufficient financial resources for its operations.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Most of the Group's revenues and payments are in Hong Kong dollars and US dollars. As the Hong Kong dollars are pegged to the US dollars, the Group had no significant exposure to fluctuations in exchange rates during the period under review. Hence, no financial instrument for hedging purposes was employed.

Capital Structure

The Group has no debt securities or other capital instruments as at 30 September 2005 and up to the date of this report.

Material Acquisitions and Disposals

The Group had no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2005.

Charges on Group Assets

As at 30 September 2005, leasehold land and buildings, and investment properties with carrying amount of approximately HK$9,227,000 (31 March 2005: approximately HK$9,337,000) and approximately HK$555,800,000 (31 March 2005: approximately HK$619,010,000), respectively, were pledged to banks to secure the bank borrowings granted to the Group.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2005, the Group spent approximately HK$599,000 (six months ended 30 September 2004: approximately HK$1,549,000) on acquisition of property, plant and equipment.

The Group had no capital commitments as at 31 March 2005 and 30 September 2005.

Contingent Liabilities

As at 30 September 2005, the outstanding amount of the Group's banking facilities utilised to the extent of approximately HK$152,969,000 (31 March 2005: approximately HK$188,913,000) were supported by the Company's corporate guarantees given to the banks and the Group did not have bills discounted with recourse under the contingent liabilities (31 March 2005: approximately HK$3,441,000).

Save as disclosed above, the Group did not have any significant contingent liabilities as at 30 September 2005.

Significant Investment

As at 30 September 2005, the Group had significant investments in a portfolio of Hong Kong listed equity securities with an aggregate market value of approximately HK$101,262,000 (31 March 2005: approximately HK$244,030,000). These securities were purchased at a total cost of approximately HK$93,752,000.

Save as disclosed above, the Group did not have any significant investment held or any significant investment plans as at 30 September 2005.

Future Plan for Material Investments

While the directors of the Company are constantly looking for investment opportunities, no concrete new investment projects have been identified.

Post Balance Sheet Events

Mark Profit Development Limited, a wholly-owned subsidiary of the Company, on 17 October 2005, made application for 34,100,000 excess rights shares of Capital Estate Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and, on 20 October 2005, was allotted 33,286,000 rights shares of Capital Estate Limited at HK$1 each, representing approximately 12.67% of the issued share capital of Capital Estate Limited as enlarged by its rights issue on the basis of four rights shares for every share held. Details of this transaction are set out in the circular of the Company dated 14 November 2005.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Post Balance Sheet Events *(Cont'd)*

On 3 November 2005, the Company terminated the ongoing connected transaction agreement dated 10 May 2004 as supplemented by a letter dated 15 June 2004 with Mr. Louie Tsz Chung (the "Agreement"). Under the Agreement, the Group agreed to purchase garments, apparel, clothing and textiles from companies controlled by Mr. Louie (the "Supplier"). Mr. Louie is the nephew of Ms. Lui Yuk Chu, a director of the Company and has been deemed to be a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As at the date of this report, the Supplier owes the Group approximately HK$33,300,000. The Company has made full provision in respect of such debt in its results for the six months ended 30 September 2005. Details of the termination of the Agreement are set out in the announcement of the Company dated 3 November 2005.

As announced by the Company on 5 December 2005, among other things, the Insider Dealing Tribunal (the "Tribunal") has found that Mr. Koon Wing Yee, a director of the Company, is an insider dealer in relation to the purchase of the shares of the Company and shares of Easy Concepts International Holdings Limited, now known as "CITIC 21CN COMPANY LIMITED" on 31 January 2000. The Tribunal has yet to make any orders against Mr. Koon and Mr. Koon has appealed against the findings of the Tribunal insofar as they relate to himself. Further announcements will be made as and when appropriate.

Employment and Remuneration Policy

As at 30 September 2005, the number of employees of the Group in Hong Kong and the US was about 60 and 16 respectively. Employees' cost (including directors' emoluments) amounted to approximately HK$12,914,000 for the period under review (six months ended 30 September 2004: approximately HK$14,450,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up the Mandatory Provident Fund Scheme for the Hong Kong's employees and has made contributions to the pension scheme for the US staff. The Group also has a share option scheme to motivate valued employees.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2005, the interests and short positions of the directors and chief executives of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

A. Interests in the Company:

Name of director	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Mr. Koon Wing Yee *(Note a)*	Interest of spouse	486,324,678	36.74
Ms. Lui Yuk Chu *(Note a)*	Beneficiary of a trust	486,324,678	36.74
Mr. Tsang Yiu Kai *(Note b)*	Beneficial owner	149,993	0.01

Note a: The 486,324,678 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Magical Profits Limited which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 486,324,678 shares by virtue of the SFO.

Note b: Mr. Tsang Yiu Kai resigned as director of the Company with effect from 10 December 2005.

B. Interests in associated corporations:

(1) Asia Alliance Holdings Limited ("Asia Alliance")

Name of director	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of Asia Alliance
Mr. Koon Wing Yee *(Note c)*	Interest of spouse	141,085,252	35.93
Ms. Lui Yuk Chu *(Note c)*	Beneficiary of a trust	141,085,252	35.93

Note c: The 141,085,252 shares relate to the same block of shares in Asia Alliance. These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of the Company. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Company. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 141,085,252 shares by virtue of the SFO.

DIRECTORS' INTERESTS IN SECURITIES *(Cont'd)*

B. Interests in associated corporations: *(Cont'd)*

(2) **Wellmake Investments Limited ("Wellmake")** *(Note d)*

Name of director	Capacity	Number of non-voting deferred share held (long position)	Percentage to issued non-voting deferred shares of Wellmake
Mr. Koon Wing Yee	Beneficial owner	1	50
Ms. Lui Yuk Chu	Beneficial owner	1	50

Note d: All the issued ordinary shares which carry the voting rights in the share capital of Wellmake were held by the Company.

Save as disclosed above, as at 30 September 2005, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 September 2005 was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

SHARE OPTION SCHEME

On 18 February 2002, a share option scheme (the "Scheme") was approved by the shareholders of the Company pursuant to the requirements of Chapter 17 of the Listing Rules.

At the beginning and the end of the six months ended 30 September 2005, there were no share options outstanding under the Scheme. No share options were granted, exercised, cancelled or lapsed during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, the persons (other than the directors or chief executives of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Magical Profits Limited *(Note)*	Beneficial owner	486,324,678	36.74
Accumulate More Profits Limited *(Note)*	Interest of controlled corporation	486,324,678	36.74
Trustcorp Limited *(Note)*	Trustee	486,324,678	36.74

Note: The 486,324,678 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Magical Profits Limited which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu, a director of the Company, and her family members other than spouse).

Save as disclosed above, as at 30 September 2005, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2005.

AUDIT COMMITTEE

The Company established an Audit Committee in December 1999 with written terms of reference. The Audit Committee currently comprises three independent non-executive directors, namely Mr. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang. The Audit Committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters, including review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2005.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee in May 2005 with written terms of reference. The Remuneration Committee currently comprises two executive directors, namely Mr. Koon Wing Yee and Mr. Tse Wing Chiu, Ricky and three independent non-executive directors, namely Mr. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang.

EXECUTIVE COMMITTEE

The Company established an Executive Committee in May 2005 with written terms of reference. The Executive Committee currently comprises three executive directors, namely Mr. Koon Wing Yee, Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu.

CORPORATE GOVERNANCE

During the six months ended 30 September 2005, the Company complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules except for the Code provision C.2 on internal controls (which will be implemented for accounting periods commencing on or after 1 July 2005) and the following deviations:

Code provision A.2.1

Mr. Koon Wing Yee is the President and Chief Executive Officer of the Company. The office of the President is equivalent to that of the Chairman for the purpose of the Company's Bye-Laws and the Companies Act 1981 of Bermuda (as amended). The board considers that the combination of the roles of President and Chief Executive Officer will not impair the balance of power and authority between the board and the management of the Company as the board will meet regularly to consider major matters affecting the operations of the Group. The board is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently. As such, it is beneficial to the business prospects of the Group.

Code provision A.4.1

All the non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation no later than the third annual general meeting after he was last elected or re-elected pursuant to the Bye-Laws of the Company.

Code provision A.4.2

At the annual general meeting of the Company held on 23 August 2005, shareholders approved the amendments to the Company's Bye-Laws to the effect that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director shall be subject to retirement by rotation no later than the third annual general meeting after he was last elected or re-elected.

Code provision A.5.4

Written guidelines in respect of dealings in the securities of the Company by relevant employees were established by the Company on 5 May 2005. Such written guidelines will be issued to the relevant employees of the Group when occasion warrants.

CORPORATE GOVERNANCE *(Cont'd)*

Code provisions B.1.1, B.1.3 and B.1.4

On 5 May 2005, the Remuneration Committee comprising a majority of independent non-executive directors was established. Its written terms of reference on no less exacting terms than those set out in Code provision B.1.3 have been placed on the Company website since June 2005.

Code provisions C.3.3 and C.3.4

The terms of reference of the Audit Committee were revised on 5 May 2005 to comply with the Code provision C.3.3 and have been placed on the Company website since June 2005.

Code provision D.1.2

The respective functions of the board and management of the Company have been formalised and set out in writing which was approved by the board on 16 December 2005. Such arrangements will be reviewed periodically.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Model Code throughout the six months ended 30 September 2005.

By order of the board of
Easyknit International Holdings Limited
Koon Wing Yee
President and Chief Executive Officer

Hong Kong, 16 December 2005

As at the date of this report, the board of the Company comprises Mr. Koon Wing Yee, Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu as executive directors and Mr. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang as independent non-executive directors.