



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永 義 實 業 集 團 有 限 公 司

(Stock Code 股份代號: 616)

2006

INTERIM REPORT 中期業績報告

The board of directors of Easyknit Enterprises Holdings Limited (formerly known as Asia Alliance Holdings Limited) (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2006 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 2006

	NOTES	Six months ended 30 September	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	3	<b>29,543</b>	26,858
Cost of sales and services		<b>(28,060)</b>	(24,874)
Gross profit		<b>1,483</b>	1,984
Other income		<b>3,035</b>	147
Distribution costs		<b>(206)</b>	(256)
Administrative expenses		<b>(7,274)</b>	(7,053)
Impairment loss recognised in respect of goodwill		—	(12,445)
Allowance for doubtful debts		<b>(1,569)</b>	—
Finance costs		<b>(32)</b>	(1,253)
Loss for the period	4	<b>(4,563)</b>	(18,876)
Basic loss per share	6	<b>HK cent (0.1)</b>	HK cent (3.7)

**CONDENSED CONSOLIDATED BALANCE SHEET  
AT 30 SEPTEMBER 2006**

	<i>NOTES</i>	<b>30 September 2006 HK\$'000 (Unaudited)</b>	31 March 2006 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>33,647</b>	24,596
Prepaid lease payments	8	<b>8,894</b>	8,814
Prepayments and deposits paid for acquisition of property, plant and equipment		<b>15,930</b>	15,628
		<b>58,471</b>	49,038
<b>Current assets</b>			
Inventories		<b>11,203</b>	4,629
Trade and other receivables	9	<b>25,521</b>	21,673
Prepaid lease payments	8	<b>187</b>	183
Bank balances and cash		<b>96,739</b>	110,018
		<b>133,650</b>	136,503
<b>Current liabilities</b>			
Trade and other payables	10	<b>15,059</b>	8,847
Bills payable	11	<b>4,385</b>	682
Bank loans due within one year		<b>—</b>	984
		<b>19,444</b>	10,513
<b>Net current assets</b>		<b>114,206</b>	125,990
		<b>172,677</b>	175,028
<b>Capital and reserves</b>			
Share capital	12	<b>39,271</b>	3,927
Reserves		<b>133,406</b>	171,101
		<b>172,677</b>	175,028

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2006	3,927	199,632	53,194	714	2,051	(84,490)	175,028
Exchange differences on translation of foreign operations and net income recognised directly in equity	—	—	—	—	2,212	—	2,212
Loss for the period	—	—	—	—	—	(4,563)	(4,563)
Total recognised income and expense for the period	—	—	—	—	2,212	(4,563)	(2,351)
Bonus issue by capitalisation of the share premium account (see note 12(c)(iii))	35,344	(35,344)	—	—	—	—	—
At 30 September 2006	<u>39,271</u>	<u>164,288</u>	<u>53,194</u>	<u>714</u>	<u>4,263</u>	<u>(89,053)</u>	<u>172,677</u>
At 1 April 2005	<u>35,701</u>	<u>61,344</u>	<u>17,850</u>	<u>714</u>	<u>45</u>	<u>(51,633)</u>	<u>64,021</u>
Exchange differences on translation of foreign operations and net income recognised directly in equity	—	—	—	—	1,360	—	1,360
Loss for the period	—	—	—	—	—	(18,876)	(18,876)
Total recognised income and expense for the period	—	—	—	—	1,360	(18,876)	(17,516)
Reduction of share capital upon capital reorganisation (see note 12(a))	(35,344)	—	35,344	—	—	—	—
Rights issue of shares (see note 12(b))	3,570	139,233	—	—	—	—	142,803
At 30 September 2005	<u>3,927</u>	<u>200,577</u>	<u>53,194</u>	<u>714</u>	<u>1,405</u>	<u>(70,509)</u>	<u>189,308</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006**

	<b>Six months ended 30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash (used in) from operating activities	<b>(4,423)</b>	1,092
Net cash used in investing activities		
Purchase of property, plant and equipment	<b>(10,687)</b>	(381)
Prepayments and deposits paid for acquisition of property, plant and equipment	—	(15,856)
Refund of excess payment on acquisition of subsidiaries	—	11,120
Purchase of land use rights	—	(9,109)
Proceeds from disposal of property, plant and equipment	<b>115</b>	—
Other investing cash flows	<b>1,301</b>	89
	<b>(9,271)</b>	(14,137)
Net cash (used in) from financing activities		
Proceeds on issue of shares	—	142,803
Bank loans raised	<b>3,555</b>	25,000
Repayment of bank loans	<b>(4,539)</b>	(71,406)
Other financing cash flows	<b>(32)</b>	(1,329)
	<b>(1,016)</b>	95,068
Net (decrease) increase in cash and cash equivalents	<b>(14,710)</b>	82,023
Cash and cash equivalents at beginning of the period	<b>110,018</b>	33,352
Effect of foreign exchange rate changes	<b>1,431</b>	1,091
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>96,739</b>	116,466

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

## 1. BASIS OF PREPARATION

The condensed consolidated 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 (the "HKICPA").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2006 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("INT"s) ("new HKFRSs") issued by the HKICPA that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) — INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) — INT 9	Reassessment of embedded derivatives <sup>3</sup>
HK(IFRIC) — INT 10	Interim financial reporting and impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 November 2006.

### 3. SEGMENT INFORMATION

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

#### For the six months ended 30 September 2006

	<b>Bleaching and dyeing</b> <i>HK\$'000</i>	<b>Knitting</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Turnover				
External	29,543	—	—	29,543
Inter-segment ( <i>note</i> )	—	4,088	(4,088)	—
	<u>29,543</u>	<u>4,088</u>	<u>(4,088)</u>	<u>29,543</u>
Total	<u>29,543</u>	<u>4,088</u>	<u>(4,088)</u>	<u>29,543</u>
Segment result	<u>(2,129)</u>	<u>(570)</u>	<u>—</u>	<u>(2,699)</u>
Interest income				1,301
Unallocated corporate expenses				(3,133)
Finance costs				(32)
Loss for the period				<u>(4,563)</u>

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

#### For the six months ended 30 September 2005

	<b>Bleaching and dyeing</b> <i>HK\$'000</i>	<b>Knitting</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Turnover				
External	26,707	151	—	26,858
Inter-segment	—	2,157	(2,157)	—
	<u>26,707</u>	<u>2,308</u>	<u>(2,157)</u>	<u>26,858</u>
Total	<u>26,707</u>	<u>2,308</u>	<u>(2,157)</u>	<u>26,858</u>
Segment result	<u>(12,932)</u>	<u>(1,091)</u>	<u>—</u>	<u>(14,023)</u>
Interest income				90
Unallocated corporate expenses				(3,690)
Finance costs				(1,253)
Loss for the period				<u>(18,876)</u>

#### 4. LOSS FOR THE PERIOD

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Loss for the period has been arrived at after charging:		
Depreciation	<b>1,705</b>	1,677
Total staff costs (including directors' emolument)	<b>5,427</b>	3,233

#### 5. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the period ended 30 September and 2006 and 2005.

Pursuant to Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, the Company's subsidiaries are entitled to preferential tax treatment with full exemption from PRC enterprise income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years. The Company's subsidiaries have not yet started their first profitable year of operations.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

#### 6. BASIC LOSS PER SHARE

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Loss for the purposes of basic loss per share	<b>(4,563)</b>	(18,876)
	<b>No. of shares</b>	
Weighted average number of shares for the purposes of basic loss per share	<b>3,927,075,240</b>	505,291,484

The denominator for the purposes of calculating basic loss per share for the six months ended 30 September 2005 has been adjusted to reflect the bonus issue of share on the basis of nine bonus shares for every share held in June 2006.

No diluted loss per share has been presented for the six months ended 30 September 2005 as the exercise of the Company's outstanding share options would reduce the loss per share for the period.

No diluted loss per share has been presented for the six months ended 30 September 2006 as there is no outstanding share option during the period.



## 7. PROPERTY, PLANT AND EQUIPMENT

In this period, the Group spent approximately HK\$10,687,000 on acquisition of property, plant and equipment (the prior period: HK\$381,000).

## 8. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights situated in the People's Republic of China held under medium-term leases. At 30 September 2006, the Group was in the process of obtaining the land use rights certificate for land use rights with carrying value amounting to approximately HK\$6,621,000 (31.3.2006: HK\$6,379,000).

## 9. TRADE AND OTHER RECEIVABLES

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

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
0 - 60 days	<b>13,024</b>	7,504
61 - 90 days	<b>3,551</b>	2,340
91 - 120 days	<b>2,799</b>	5,196
Over 120 days	<b>3,602</b>	4,738
	<hr/>	<hr/>
Trade receivables	<b>22,976</b>	19,778
Other receivables	<b>2,545</b>	1,895
	<hr/>	<hr/>
	<b>25,521</b>	21,673
	<hr/> <hr/>	<hr/> <hr/>

## 10. TRADE AND OTHER PAYABLES

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

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
0 - 60 days	<b>6,692</b>	4,963
61 - 90 days	<b>2,322</b>	1,286
91 - 120 days	<b>533</b>	233
Over 120 days	<b>—</b>	—
	<hr/>	<hr/>
Trade payables	<b>9,547</b>	6,482
Other payables	<b>5,512</b>	2,365
	<hr/>	<hr/>
	<b>15,059</b>	8,847
	<hr/> <hr/>	<hr/> <hr/>

## 11. BILLS PAYABLE

At the balance sheet date, all the bills payable are not yet over due and are aged within 60 days.

## 12. SHARE CAPITAL

	Notes	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2005		0.10	6,500,000,000	650,000
Effect of the capital reduction	(a)(i)		—	(643,500)
			<hr/>	<hr/>
Effect of the share consolidation	(a)(iii)	0.001	6,500,000,000 (5,850,000,000)	6,500 —
			<hr/>	<hr/>
At 31 March 2006		0.01	650,000,000	6,500
Increase in authorised share capital	(c)(i)	0.01	19,350,000,000	193,500
			<hr/>	<hr/>
At 30 September 2006		0.01	20,000,000,000	200,000
			<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:				
At 1 April 2005		0.10	357,006,840	35,701
Effect of the capital reduction	(a)(i)		—	(35,344)
			<hr/>	<hr/>
Effect of the share consolidation	(a)(iii)	0.001	357,006,840 (321,306,156)	357 —
			<hr/>	<hr/>
		0.01	35,700,684	357
Rights issue of shares at a price of HK\$0.40 per rights share	(b)	0.01	357,006,840	3,570
			<hr/>	<hr/>
At 31 March 2006		0.01	392,707,524	3,927
Bonus issue by capitalisation of the share premium account	(c)(ii)	0.01	3,534,367,716	35,344
			<hr/>	<hr/>
At 30 September 2006		0.01	3,927,075,240	39,271
			<hr/> <hr/>	<hr/> <hr/>

## 12. SHARE CAPITAL (Cont'd)

Notes:

- (a) In September 2005, the Company underwent a capital reorganisation (the "Capital Reorganisation"). Details of the Capital Reorganisation are set out in the circular dated 15 August 2005 issued by the Company.

At the special general meeting of the Company held on 6 September 2005, a special resolution approving the Capital Reorganisation was passed and the following capital reorganisation became effective on 9 September 2005:

- (i) the par value of the authorised, issued and unissued share capital of the Company was reduced from HK\$0.10 each to HK\$0.001 each (the "Capital Reduction");
  - (ii) the amount of the cancelled paid-up capital in the sum of approximately HK\$35,344,000 arising from the Capital Reduction was credited to a capital reserve account of the Company; and
  - (iii) every ten issued and unissued reduced shares of HK\$0.001 each were consolidated into one share of HK\$0.01 each (the "Consolidated Share").
- (b) A rights issue of 357,006,840 shares of HK\$0.01 each at a subscription price of HK\$0.40 per rights share were allotted on 27 September 2005 to the shareholders of the Company in the proportion of ten rights shares for every Consolidated Share then held. The net proceeds of the rights issue amounted to approximately HK\$142,000,000 of which approximately HK\$69,000,000 was used for repayment of all outstanding bank loans, and the balance for general working capital purposes. All shares issued rank pari passu with the then existing shares in issue in all respects.
- (c) As announced by the Company on 2 May 2006, the Company proposed the followings:
- (i) to increase the authorised share capital of the Company from HK\$6,500,000 to HK\$200,000,000 by the creation of an additional 19,350,000,000 shares of HK\$0.01 each (the "Increase in Authorised Share Capital"); and
  - (ii) upon the Increase in Authorised Share Capital becoming effective, to issue 3,534,367,716 bonus shares of HK\$0.01 each by way of capitalisation of an amount of approximately HK\$35,344,000 of the Company's share premium account on the basis of nine bonus shares for every share held (the "Bonus Issue").

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

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

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

### 13. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group received administrative services from Easyknit International Trading Company Limited ("EITC"), a company in which Ms. Lui Yuk Chu, a director of the Company, have beneficial interests and paid services fee of approximately HK\$120,000 (the prior period: HK\$120,000). The services fee is determined based on mutually agreed terms.
- (b) In the prior period, a former director of the Company provided a personal guarantee of HK\$55,000,000 to a bank in respect of general banking facilities granted to a wholly-owned subsidiary of the Company. The relevant bank loans of the subsidiary were fully repaid by applying the net proceeds from the rights issue of the Company in September 2005.
- (c) Compensation of key management personnel

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

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Short-term employee benefits	<u>1,962</u>	<u>246</u>

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

### 14. CAPITAL COMMITMENTS

	30 September	31 March
	2006	2006
	HK\$'000	HK\$'000
Capital expenditure contracted but not provided for in respect of:		
– construction of plants	52,840	5,903
– acquisition of property, plant and equipment	481	—
– capital injection for interests in a jointly controlled entity and a non wholly-owned subsidiary	—	20,904
	<u>53,321</u>	<u>26,807</u>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	<u>419,139</u>	<u>466,733</u>

## **INTERIM DIVIDEND**

The board of directors has resolved not to declare an interim dividend for the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

## **CHANGE OF COMPANY NAME**

With effect from 19 June 2006, the name of the Company has been changed from "Asia Alliance Holdings Limited" to "Easyknit Enterprises Holdings Limited" and the new Chinese name of "永義實業集團有限公司" has been adopted to replace the Chinese name of "亞洲聯盟集團有限公司" for identification purpose.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Results**

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$29,543,000, an increase of approximately 10.0% over approximately HK\$26,858,000 for the same period last year. Gross profit dropped approximately 25.3% to approximately HK\$1,483,000 (six months ended 30 September 2005: approximately HK\$1,984,000). Loss attributable to shareholders amounted to approximately HK\$4,563,000 as compared to approximately HK\$18,876,000 for the same period in 2005. Loss per share was approximately HK cent 0.1 (six months ended 30 September 2005: approximately HK cents 3.7).

The significant decrease in loss for the period under review was primarily attributable to the quantum leap in other income and substantial reduction in finance costs as well as the one-off impairment loss recognised in respect of goodwill of approximately HK\$12,445,000 in the same period last year. This was partly offset by the increase in cost of sales and services, and allowance for doubtful debts of approximately HK\$1,569,000.

The cost of sales and services went up by approximately 12.8% to approximately HK\$28,060,000 (six months ended 30 September 2005: approximately HK\$24,874,000), primarily due to the growth in sales, increase in material costs and addition of new costs, including the rent and management fee for the factory.

The other income surged approximately 19.6 times to reach approximately HK\$3,035,000 (six months ended 30 September 2005: approximately HK\$147,000), mainly due to the write back of allowance for doubtful debts of approximately HK\$1,690,000 and increase in interest income of approximately HK\$1,211,000.

The Group's total operating expenses remained stable at approximately HK\$7,480,000 (six months ended 30 September 2005: approximately HK\$7,309,000).

Finance costs dropped approximately 97.4% to approximately HK\$32,000 (six months ended 30 September 2005: approximately HK\$1,253,000), principally by reason of the decrease in bank loans during the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

### Business Review

During the six months ended 30 September 2006, the Group was principally engaged in the businesses of bleaching and dyeing and knitting.

The bleaching and dyeing business continued to be the major business of the Group and contributed to 100.0% of the Group's total turnover for the period under review, an approximately 0.6% increase over the same period last year of approximately 99.4%. Turnover of this segment increased by approximately 10.6% to approximately HK\$29,543,000 (six months ended 30 September 2005: approximately HK\$26,707,000). This segment suffered a loss of approximately HK\$2,129,000 (six months ended 30 September 2005: approximately HK\$12,932,000), largely due to higher material and staff costs despite of the fact that an one-off impairment loss in respect of goodwill of approximately HK\$12,445,000 was recognised in the same period last year. The Group's bleaching and dyeing factory located in Dongguan, the People's Republic of China (the "PRC") currently has a daily production capacity of about 30,000 pounds.

The knitting business made no contribution to the Group's total turnover for the period under review (six months ended 30 September 2005: approximately 0.6%). Taking into account the portion of inter-segment, the turnover derived from this segment rose drastically by approximately 77.1% to approximately HK\$4,088,000 from approximately HK\$2,308,000 for the same period in 2005. The segment loss decreased from approximately HK\$1,091,000 to approximately HK\$570,000. The knitting mill in Heyuan, the PRC has a daily production capacity of about 20,000 pounds.

Geographically, all the Group's customers were located in the PRC.

There have been no material changes to the information disclosed in the Company's annual report for the year ended 31 March 2006 in respect of the Group's project in Huzhou City, Zhejiang Province, the PRC which involves, inter alia, the development of the garment manufacturing, bleaching and dyeing, and knitting capabilities and the construction of a waste water treatment plant (the "Huzhou Project").

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Cont'd)*

### **Prospects**

The directors of the Company anticipate that the businesses of the Group will remain stable in the second half of the financial year ended 31 March 2007 in view of the stable customer base and customer orders. Facing with keen competition in the market, the Group will focus in implementing an effective control in production cost, expanding its customer base and improving its product quality in order to strengthen its competitiveness and bring a positive return to its shareholders.

As regards the Huzhou Project, the directors will continue to keep track of the transfer of the remaining two pieces of land with an aggregate area of approximately 448 mu to the Group. As soon as the land is transferred to the Group, the construction work will be carried out immediately. The directors believe that the Huzhou Project will help the Group to offer one-stop services to its customers ranging from knitting, bleaching and dyeing, and garment manufacturing and benefit from the synergies gained within such vertical integration.

### **Liquidity and Financial Resources**

During the six months ended 30 September 2006, the Group financed its operations mainly by internally generated resources. Shareholders' fund of the Group as at 30 September 2006 was approximately HK\$172,677,000 (31 March 2006: approximately HK\$175,028,000). As the Group had no bank borrowings as at 30 September 2006 (31 March 2006: approximately HK\$984,000), no gearing ratio of the Group is presented at 30 September 2006. As at 31 March 2006, the Group's gearing ratio, which was calculated based on the total borrowings to the shareholders' fund, was approximately 0.006.

The Group continued to sustain a liquidity position. As at 30 September 2006, the Group had net current assets of approximately HK\$114,206,000 (31 March 2006: approximately HK\$125,990,000) and cash and cash equivalents of approximately HK\$96,739,000 (31 March 2006: approximately HK\$110,018,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and Renminbi. As at 30 September 2006, the Group's current ratio was approximately 6.9 (31 March 2006: approximately 13.0), which was calculated on the basis of current assets of approximately HK\$133,650,000 (31 March 2006: approximately HK\$136,503,000) to current liabilities of approximately HK\$19,444,000 (31 March 2006: approximately HK\$10,513,000). The fall in the current ratio was primarily due to the substantial increase in trade and other payables, and bills payable by approximately HK\$6,212,000 and HK\$3,703,000 respectively. During the period under review, the Group serviced its debts mainly through internally generated resources.

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

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Cont'd)*

### **Exposure to Fluctuations in Exchange Rates and Related Hedges**

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

### **Capital Structure**

As announced by the Company on 2 May 2006, the board of directors proposed, amongst others, (i) the increase in the authorised share capital of the Company from HK\$6,500,000 to HK\$200,000,000 by the creation of an additional 19,350,000,000 unissued shares of HK\$0.01 each (the "Increase in Authorised Share Capital"); and (ii) the issue of 3,534,367,716 bonus shares of HK\$0.01 each by way of capitalisation of an amount of approximately HK\$35,344,000 from the Company's share premium account on the basis of nine bonus shares for every share held (the "Bonus Issue").

Ordinary resolutions approving the Increase in Authorised Share Capital and the Bonus Issue were passed at the special general meeting of the Company held on 19 June 2006, resulting in an authorised share capital of HK\$200,000,000 comprising 20,000,000,000 shares of HK\$0.01 each and an issued share capital of HK\$39,270,752.40 consisting of 3,927,075,240 shares of HK\$0.01 each with effect from 19 June 2006 and 27 June 2006 respectively. Details of the Increase in Authorised Share Capital and the Bonus Issue are set out in the Company's circular dated 19 May 2006.

The Group had no debt securities or other capital instruments as at 30 September 2006 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 2006.

### **Charges on Group Assets**

The Group did not have any charges on assets as at 30 September 2006.

### **Capital Expenditure and Capital Commitments**

During the six months ended 30 September 2006, the Group spent approximately HK\$10,687,000 on acquisition of property, plant and equipment (six months ended 30 September 2005: approximately HK\$381,000).

As at 30 September 2006, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK\$53,321,000 (31 March 2006: approximately HK\$26,807,000); and capital expenditure authorised but not contracted for of approximately HK\$419,139,000 (31 March 2006: approximately HK\$466,733,000).



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Cont'd)*

### **Contingent Liabilities**

The Group did not have any significant contingent liabilities as at 30 September 2006 (31 March 2006: Nil).

### **Significant Investment**

Apart from the Huzhou Project (as defined in "Business Review" above), the Group did not have any significant investment plans or any significant investment held as at 30 September 2006.

### **Future Plan for Material Investments**

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

### **Employment and Remuneration Policy**

As at 30 September 2006, the Group employed approximately 280 full time management, technical, administrative staff and workers in Hong Kong and elsewhere in the PRC. Staff cost (including directors' emoluments) amounted to approximately HK\$5,427,000 for the period under review (six months ended 30 September 2005: approximately HK\$3,233,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund Scheme for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has a share option scheme to motivate valued employees.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2006, the interests and short positions of the directors and the 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 (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### Interests in the Company:

Name of director	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Lui Yuk Chu ( <i>Note</i> )	Beneficiary of a trust	1,410,852,520	35.93

*Note:* These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit International Holdings Limited ("Easyknit"). Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. 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 include Ms. Lui Yuk Chu and her family members other than her spouse).

Save as disclosed above, as at 30 September 2006, 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 2006 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 6 June 2002, a share option scheme (the "Scheme") was approved by the shareholders of the Company pursuant to the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). No share options have been granted or outstanding under the Scheme since its adoption.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, the persons (other than the directors or the chief executives of the Company) who had an interest or 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:

<b>Name of substantial shareholder</b>	<b>Capacity</b>	<b>Number of ordinary shares held (long position)</b>	<b>Approximate percentage to issued ordinary shares of the Company</b>
Koon Wing Yee ( <i>note a</i> )	Interest of spouse	1,410,852,520	35.93
Landmark Profits Limited ( <i>notes a and b</i> )	Beneficial owner	1,410,852,520	35.93
Easyknit ( <i>notes a and b</i> )	Interest of controlled corporation	1,410,852,520	35.93
Magical Profits Limited ( <i>notes a and c</i> )	Interest of controlled corporation	1,410,852,520	35.93
Accumulate More Profits Limited ( <i>notes a and c</i> )	Interest of controlled corporation	1,410,852,520	35.93
Trustcorp Limited ( <i>notes a and d</i> )	Trustee	1,410,852,520	35.93
Newcorp Ltd. ( <i>note d</i> )	Interest of controlled corporation	1,410,852,520	35.93
Newcorp Holdings Limited ( <i>note d</i> )	Interest of controlled corporation	1,410,852,520	35.93
David Henry Christopher Hill ( <i>note d</i> )	Interest of controlled corporation	1,410,852,520	35.93
David William Roberts ( <i>note d</i> )	Interest of controlled corporation	1,410,852,520	35.93
Rebecca Ann Hill ( <i>note d</i> )	Interest of spouse	1,410,852,520	35.93
Au Yeung Man Yin	Beneficial owner	297,624,130	7.58

## **SUBSTANTIAL SHAREHOLDERS** (Cont'd)

Notes:

- (a) The 1,410,852,520 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. 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 include Ms. Lui Yuk Chu, a director of the Company, and her family members other than her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 1,410,852,520 shares by virtue of the SFO.
- (b) Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu, being the directors of the Company, are also directors of Landmark Profits Limited and Easyknit.
- (c) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited and Accumulate More Profits Limited.
- (d) Trustcorp Limited was a wholly-owned subsidiary of Newcorp Ltd., Newcorp Ltd. was wholly-owned by Newcorp Holdings Limited. Each of Mr. David Henry Christopher Hill and Mr. David William Roberts was interested in 35% of the issued share capital of Newcorp Holdings Limited. Mrs. Rebecca Ann Hill, being the spouse of Mr. David Henry Christopher Hill, was deemed to be interested in the 1,410,852,520 shares by virtue of SFO.

Save as disclosed above, as at 30 September 2006, 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 2006.

## **AUDIT COMMITTEE**

The Company has established an Audit Committee with written terms of reference. The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon (Committee Chairman), Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming. 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 2006.

## **REMUNERATION COMMITTEE**

The Company has established a Remuneration Committee with written terms of reference. The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Kwong Jimmy Cheung Tim (Committee Chairman), Mr. Kan Ka Hon and Mr. Lau Sin Ming.

## **EXECUTIVE COMMITTEE**

The Company has established an Executive Committee with written terms of reference. The Executive Committee currently comprises two executive directors, namely Mr. Tse Wing Chiu, Ricky (Committee Chairman) and Ms. Lui Yuk Chu.

## **CORPORATE GOVERNANCE**

During the six months ended 30 September 2006, 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 following deviations:

### **Code provision A.2.1**

Mr. Tse Wing Chiu, Ricky is the Chairman and Chief Executive Officer of the Company. The board considers that the combination of the roles of Chairman and Chief Executive Officer will not impair the balance of power and authority between the board and the management of the Company as the board will meet regularly to consider major matters affecting the operations of the Group. The board is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently. As such, it is beneficial to the business prospects of the Group.

### **Code provision A.4.1**

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

### **Code provision A.4.2**

According to the Special Act of the Company (the "Act"), no director holding the office of Chairman or Managing Director shall be subject to retirement by rotation as provided in the Bye-Laws of the Company. As the Company is bound by the provisions of the Act, the Bye-Laws of the Company cannot be amended to fully reflect the requirements of the Code.

## **CORPORATE GOVERNANCE** *(Cont'd)*

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

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

The reasons for the above deviations are set out in the paragraph headed "Remuneration Committee" in the "Corporate Governance Report" contained in the Company's annual report for the financial year ended 31 March 2006.

### **Code provisions B.1.4 and C.3.4**

It was not until November 2006 that the Company established its own website. Thus, the requirement under the Code provisions B.1.4 and C.3.4 that the Company should make available terms of reference of the Audit Committee and the Remuneration Committee on website was not met during the six months ended 30 September 2006. However, these terms of reference are available on request.

### **Code provision E.1.2**

Mr. Kwong Jimmy Cheung Tim, the chairman of the Remuneration Committee, was unable to attend the annual general meeting of the Company held on 18 August 2006 due to business reasons. The other members of the Remuneration Committee including Mr. Kan Ka Hon and Mr. Lau Sin Ming were present to answer questions at the meeting.

## **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 its own code of conduct in relation to directors' securities transactions. 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 2006.

By order of the board of  
**Easyknit Enterprises Holdings Limited**  
**Tse Wing Chiu, Ricky**  
*Chairman and Chief Executive Officer*

Hong Kong, 29 November 2006

*As at the date of this report, the board of the Company comprises Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu as executive directors and Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming as independent non-executive directors.*