EASYKNIT ENTERPRISES HOLDINGS LIMITED

永 義 實 業 集 團 有 限 公 司

(Stock Code 股份代號 : 0616)

Interim Report

中期業績報告

2007

The board of directors (the "Board") of Easyknit Enterprises 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 2007 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 2007

		Six months ended 30 September	
	NOTES	**2007**	2006
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	3	**38,443**	29,543
Cost of sales and services		**(36,685)**	(28,060)
Gross profit		**1,758**	1,483
Other income		**999**	3,035
Other expenses		**(8,201)**	—
Distribution costs		**(213)**	(206)
Administrative expenses		**(7,251)**	(7,274)
Allowance for doubtful debts		**—**	(1,569)
Finance costs		**(39)**	(32)
Loss for the period	4	**(12,947)**	(4,563)
Basic loss per share	6	**HK cent (0.3)**	HK cent (0.1)

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2007

	NOTES	30 September 2007 HK$'000 (Unaudited)	31 March 2007 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	**87,870**	66,836
Prepaid lease payments	8	**38,290**	31,642
Deposits for acquisition of property, plant and equipment		**16,512**	16,125
		142,672	114,603
Current assets			
Inventories		**9,788**	15,445
Trade and other receivables	9	**30,466**	44,783
Prepaid lease payments	8	**798**	656
Bank balances and cash		**7,480**	29,392
		48,532	90,276
Current liabilities			
Trade and other payables	10	**29,002**	24,453
Bills payable	11	**1,910**	4,146
Tax payable		**1,646**	1,608
Bank loans	12	**—**	6,038
		32,558	36,245
Net current assets		**15,974**	54,031
		158,646	168,634
Capital and reserves			
Share capital	13	**39,271**	39,271
Reserves		**119,375**	129,363
		158,646	168,634

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Contributed surplus *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2007	39,271	164,288	53,194	714	7,138	(95,971)	168,634
Exchange differences on translation to presentation currency	—	—	—	—	2,959	—	2,959
Loss for the period	—	—	—	—	—	(12,947)	(12,947)
Total recognised income and expense for the period	—	—	—	—	2,959	(12,947)	(9,988)
At 30 September 2007	39,271	164,288	53,194	714	10,097	(108,918)	158,646
At 1 April 2006	3,927	199,632	53,194	714	2,051	(84,490)	175,028
Exchange differences on translation to presentation currency	—	—	—	—	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 13(ii))*	35,344	(35,344)	—	—	—	—	—
At 30 September 2006	39,271	164,288	53,194	714	4,263	(89,053)	172,677

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	Six months ended 30 September	
	2007	2006
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	**11,295**	(4,423)
Net cash used in investing activities		
Purchase of property, plant and equipment	**(21,421)**	(10,687)
Prepaid lease payment	**(6,361)**	—
Proceeds from disposal of property, plant and equipment	**—**	115
Other investing cash flows	**213**	1,301
	(27,569)	(9,271)
Net cash used in financing activities		
Bank loans raised	**2,043**	3,555
Repayment of bank loans	**(8,081)**	(4,539)
Other financing cash flows	**(39)**	(32)
	(6,077)	(1,016)
Net decrease in cash and cash equivalents	**(22,351)**	(14,710)
Cash and cash equivalents at beginning of the period	**29,392**	110,018
Effect of foreign exchange rate changes	**439**	1,431
Cash and cash equivalents at end of the period, represented by bank balances and cash	**7,480**	96,739

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

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 "Listing Rules") 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 Group's annual financial statements for the year ended 31 March 2007.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial period beginning 1 April 2007.

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 8	Scope of HKFRS 2 [2]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives [3]
HK(IFRIC) - INT 10	Interim financial reporting and impairment [4]
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions [5]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 May 2006.
[3] Effective for annual periods beginning on or after 1 June 2006.
[4] Effective for annual periods beginning on or after 1 November 2006.
[5] Effective for annual periods beginning on or after 1 March 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

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 2007

	Bleaching and dyeing *HK$'000*	**Knitting** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
Turnover				
External	**38,411**	**32**	**—**	**38,443**
Inter-segment *(note)*	**—**	**4,565**	**(4,565)**	**—**
Total	**38,411**	**4,597**	**(4,565)**	**38,443**
Segment results	**(692)**	**(683)**	**—**	**(1,375)**
Interest income				**213**
Unallocated corporate expenses				**(11,746)**
Finance costs				**(39)**
Loss for the period				**(12,947)**

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

For the six months ended 30 September 2006

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

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

4. LOSS FOR THE PERIOD

	Six months ended 30 September	
	2007	2006
	HK$'000	*HK$'000*
Loss for the period has been arrived at after charging:		
Depreciation	**1,786**	1,705
Professional fees for the possible merger (see note 16)	**8,201**	—
Total staff costs (including directors' emoluments)	**5,736**	5,427

5. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods. The taxation charge in Mainland China is insignificant.

Pursuant to Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises in Mainland China, the Company's subsidiaries are entitled to preferential tax treatment with full exemption from the People's Republic of China ("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.

On 16 March 2007, the PRC promulgated the Law of PRC Enterprise Income Tax (the "new law") by Order No. 63 of the President of PRC which will change the tax rate for certain subsidiaries from 1 January 2008. However, the detailed implementation rules regarding the new law have not yet been issued and therefore the Group is not in a position to determine whether the Company's subsidiaries will still be entitled to the preferential tax treatment mentioned above.

6. BASIC LOSS PER SHARE

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

	Six months ended 30 September	
	2007	2006
	HK$'000	*HK$'000*
Loss for the purposes of basic loss per share	**(12,947)**	(4,563)
	Number of shares	
Number of shares for the purposes of basic loss per share	**3,927,075,240**	3,927,075,240

The denominator for the purposes of calculating basic loss per share for the six months ended 30 September 2006 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 both periods as there were no outstanding share options during those periods.

7. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group spent HK$21,421,000 on acquisition of property, plant and equipment (the prior period: HK$10,687,000).

8. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights situated in the PRC held under medium-term leases. At 30 September 2007, the Group was in the process of obtaining the land use rights certificate for land use rights with carrying value amounting to HK$19,722,000 (31 March 2007: HK$28,258,000).

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 is as follows:

	30 September 2007	31 March 2007
	HK$'000	*HK$'000*
0 - 60 days	**11,150**	10,026
61 - 90 days	**4,354**	10,655
Over 90 days	**14,453**	21,007
Trade receivables	**29,957**	41,688
Other receivables and prepayments	**509**	3,095
	30,466	44,783

10. TRADE AND OTHER PAYABLES

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

	30 September 2007	31 March 2007
	HK$'000	*HK$'000*
0 - 60 days	**4,258**	4,444
61 - 90 days	**2,172**	2,494
Over 90 days	**2,189**	1,408
Trade payables	**8,619**	8,346
Other payables	**20,383**	16,107
	29,002	24,453

11. BILLS PAYABLE

At the balance sheet date, all bills payable were aged within 30 days.

12. BANK LOANS

During the current period, the Group obtained new bank loans amounting to approximately HK$2,043,000. All bank loans were repaid in full during the current period.

13. SHARE CAPITAL

	Notes	Nominal value per share	Number of shares	Amount
		HK$		*HK$'000*
Authorised:				
At 1 April 2006		0.01	650,000,000	6,500
Increase in authorised share capital	(i)	0.01	19,350,000,000	193,500
At 31 March 2007 and 30 September 2007		0.01	20,000,000,000	200,000
Issued and fully paid:				
At 1 April 2006		0.01	392,707,524	3,927
Bonus issue by capitalisation of the share premium account	(ii)	0.01	3,534,367,716	35,344
At 31 March 2007 and 30 September 2007		0.01	3,927,075,240	39,271

Notes:

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.

14. RELATED PARTY TRANSACTIONS

(a) During the current period, the Group received administrative services from Grand Modern Investment Limited (formerly known as Easyknit International Trading Company Limited) and Easyknit Global Company Limited (formerly known as Easyknit Trading Company Limited and Perfect Luck Development Limited), companies in which Ms. Lui Yuk Chu, a director of the Company, has beneficial interests, and paid services fee of HK$80,000 (the prior period: HK$120,000) and HK$40,000 (the prior period: Nil) respectively. The fees are determined based on mutually agreed terms.

During the period, the Group purchased a motor vehicle amounting to HK$576,000 (the prior period: nil) from Grand Modern Investment Limited.

14. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) 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	
	2007	2006
	HK$'000	*HK$'000*
Short-term employee benefits	**2,010**	1,962

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.

15. CAPITAL COMMITMENTS

	30 September	31 March
	2007	2007
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment		
– Contracted for but not provided	**53,382**	80,104
– Authorised but not contracted for	**358,743**	347,771
	412,125	427,875

The capital expenditure shown above is principally for the purpose of development of manufacturing operations in the PRC.

16. SIGNIFICANT MATTERS

The Company included in note 27 of the Group's annual financial statements for the year ended 31 March 2007, details of, among others, a possible merger involving Wits Basin Precious Minerals Inc. ("Wits Basin") and a possible issue of approximately 3 billion shares by the Company to the shareholders of Wits Basin. Wits Basin is a company incorporated in Minnesota, the United States of America (the "USA") whose principal business was the exploration and development of minerals in Mexico, Colorado and South Africa.

The Company further announced on 6 August, 20 August and 6 November 2007 that Wits Basin had sent a letter to the Company purporting to terminate the merger agreements on the grounds cited or on any other grounds. The Company did not admit any allegations made by Wits Basin or that Wits Basin was entitled to terminate the merger agreements on the grounds cited or on any other grounds. The Company is taking legal advice in the USA about the purported termination of the merger agreements and has instructed the lawyers in the USA to claim from Wits Basin for a break up fee of US$30,000,000 (approximately HK$234 million) as according to the termination clauses noted in the merger agreements. The directors consider that it is premature to opine on the outcome of the dispute with Wits Basin and the break up fee claimed from Wits Basin was not recognized in the condensed consolidated financial Statements. As the possible merger was suspended, professional fees incurred up to 30 September 2007, amounting to approximately HK$8,201,000, was charged to the income statement in the current period and included in other expenses.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2007 (six months ended 30 September 2006 : Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

During the six month ended 30 September 2007, the Group recorded a turnover of approximately HK$38,443,000 (six months ended 30 September 2006 : HK$29,543,000), representing an increase of approximately 30.1% from the same period last year. Gross profit increased approximately 18.5% to HK$1,758,000 (six months ended 30 September 2006 : HK$1,483,000). Gross profit margin decreased from 5.0% in last corresponding period to 4.6% this period mainly due to the increase in direct material costs, labour wages and energy costs. Loss attributable to shareholders for the period amounted to approximately HK$12,947,000 (six months ended 30 September 2006 : HK$4,563,000). Increase in loss attributable to shareholders was largely due to provision of legal and professional fees of approximately HK$8.2 million for services rendered up to 30 September 2007 in relation to the possible merger with Wits Basin Precious Minerals Inc., (for detail discussion of the merger, please refer to the "Development on the possible merger with Wits Basin Precious Minerals Inc." as shown below). Loss per share for the period was approximately HK cent 0.3 (six months ended 30 September 2006 : approximately HK cent 0.1).

The Group's total operating expenses increased to HK$15,665,000 as compared to the same period last year of HK$7,480,000, an increase of 109.4%. The increase was primarily due to the provision of legal and professional fees in relation to the possible merger with Wits Basin Precious Minerals Inc. as explained above.

Finance cost was insignificant by reason of low average bank loans outstanding during the period.

Business Review

The bleaching and dyeing business continued to be the principal business of the Group and contributed to approximately 99.9% of the Group's total turnover during the period under review, whereas the knitting business accounted for the remaining approximately 0.1% of the total turnover of the Group.

Turnover of the bleaching and dyeing business increased by approximately 30.0% to approximately HK$38,411,000 (six months ended 30 September 2006 : approximately HK$29,543,000). This segment suffered a loss of approximately HK$692,000 (six months ended 30 September 2006 : HK$2,129,000). The improvement in loss from this segment was due to the provision of doubtful debt of approximately HK$1,569,000 in the last corresponding period but no such provision was required for the period under review. The Group's bleaching and dyeing factory located in Dongguan, the PRC, has a daily production capacity of about 30,000 pounds.

The knitting business contributed approximately HK$32,000 to the Group's total turnover for the period under review (six months ended 30 September 2006 : nil). Taking into account the portion of inter-segment sales, the turnover derived from this business rose by 12.5% to approximately HK$4,597,000 (six months ended 30 September 2006 : approximately HK$4,088,000). Loss from this segment increased to approximately HK$683,000 as compared to approximately HK$570,000 for the same period in last year. The increase was due to the increase in direct material costs and sub-contracting charges. The knitting plant in Heyuan, the PRC, has a daily production capacity of about 20,000 pounds.

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

Development on the Huzhou Project

The Group obtained another land use right certificate for land of approximately 115 mu from the local Huzhou Government in September 2007. This plot of land is designated for building of knitting production plant. Construction work on this plot of land has not commenced yet as the relevant work permit has not yet been issued to the Group. Once the work permit is granted, construction work will be started as soon as possible. Construction work of garment production plants, staff and labour quarters and administrative office buildings on the land previously received is more than half completed. The rest of the construction work is expected to be completed after November 2008. The land use right certificate for the remaining plot of land which is designated for building of bleaching and dyeing production plant and the waste water treatment plant is yet to be received.

Development on the possible merger with Wits Basin Precious Minerals Inc.

In November 2006, the Group was approached by Wits Basin Precious Minerals Inc., ("WB"), a company incorporated in Minnesota, the United States of America ("USA") whose principal business is the exploration and development of minerals in Mexico, Colorado and South Africa, for preliminary discussion in respect of a possible merger between the Group and WB. After several meetings with the key management of WB, the directors were of the view that the possible merger is in the best interest of the Company and its shareholders as a whole as it would allow the Group to diversify its business interests into mining, a sector in which the Group foresee attractive growth prospects, and reduce its reliance on its current business which operate in a highly-competitive environment with no significant barriers to entry.

On 2 February 2007, the Company and its wholly owned subsidiary Race Merger, Inc. ("Race Merger") entered into a conditional merger agreement ("Merger Agreement") with WB in respect of possible merger between the Group and WB ("Possible Merger"). It was intended that the Possible Merger might involve an issue of approximately 3,345,286,315 shares of the Company (in form of American Depositary Shares), representing approximately 46% of the existing issued share capital, to the shareholders of WB in consideration of the transfer of all their shares in WB to the Group. Under the Merger Agreement, a break up fee of US$30,000,000 is required to be paid by the defaulting party to the non-defaulting party if the former is in breach of any representation, warranty, covenant set forth in the Merger Agreement which results in the latter to terminate the Merger Agreement. In addition, the defaulting party is required to reimburse the non-defaulting party 100% of its reasonable legal expenses up to US$500,000 actually incurred by it in connection with the Possible Merger.

On 15 August 2007, WB filed a declaratory judgement action in the District Court of the State of Minnesota against the Company and Race Merger pursuant to which WB seeks a declaration by the court that WB is entitled to terminate the Merger Agreement on the alleged grounds that there has been a material adverse change in the financial condition of the Group and the due diligence on the Group was not satisfactory. WB's claim was amended on 30 August 2007 to particularize their claim for alleged damages for the Group on the ground that the Group did not grant WB's request for consent to WB's proposed commercial transaction. The Group did not grant WB the said request for consent because WB failed to supply the Group with the necessary relevant information in relation to the proposed commercial transaction which the Group's United States lawyers has advised to be necessary before any granting of consent by the Group.

Development on the possible merger with Wits Basin Precious Minerals Inc. *(Cont'd)*

On 1 November 2007, the Group received a notice of termination of the Merger Agreement from WB's lawyers based on the aforesaid grounds. Based on the legal advice received from the Group's lawyers in the USA, the directors are of the view that WB's alleged grounds of termination of the Merger Agreement are without merit. The directors has instructed lawyers in the USA to advise them on the WB's claims and to claim from WB the break up fee of US$30,000,000, and also that all obligations under the Merger Agreement on the part of the Company and Race Merger have been discharged.

Details of the developments in relation to the Possible Merger can be referred to the Company's announcements published on 30 November 2006, 1 February 2007, 6 February 2007, 30 March 2007, 17 July 2007, 20 August 2007 and 6 November 2007.

Prospects

The directors of the Company believe that the businesses of the Group will remain stable in the second half of the financial year ending 31 March 2008 in view of the stable customer orders. Despite keen competition in the market, the Group will continue to streamline its operations by controlling production cost and improving product quality.

For the Huzhou project, the directors will follow up closely with the local government in the PRC so as to avoid excessive delay in receiving the last plot of land.

Liquidity and Financial Resources

During the six months ended 30 September 2007, the Group financed its operations mainly by internally generated resources. Shareholders' fund of the Group as at 30 September 2007 was approximately HK$158,646,000 (31 March 2007: approximately HK$168,634,000). As the Group had no bank borrowings as at 30 September 2007 (31 March 2007: approximately HK$6,038,000), no gearing ratio of the Group is presented at 30 September 2007 (31 March 2007: approximately 0.036).

The Group continued to sustain a liquidity position. As at 30 September 2007, the Group had net current assets of approximately HK$15,974,000 (31 March 2007: approximately HK$54,031,000) and cash and cash equivalents of approximately HK$7,480,000 (31 March 2007: approximately HK$29,392,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and Renminbi. As at 30 September 2007, the Group's current ratio was approximately 1.5 (31 March 2007: approximately 2.5), which was calculated on the basis of current assets of approximately HK$48,532,000 (31 March 2007: approximately HK$90,276,000) to current liabilities of approximately HK$32,558,000 (31 March 2007: approximately HK$36,245,000). The fall in the current ratio was primarily due to the substantial decrease in current assets by approximately HK$41,744,000. 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. We will remain cautious in the Group's liquidity management.

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 fluctuation in exchange rates and thus, no financial instrument for hedging purposes was employed.

Capital Structure

The Group had no debt securities or other capital instruments as at 30 September 2007 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 2007.

Charges on Group Assets

The Group did not have any charges on assets as at 30 September 2007.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2007, the Group spent approximately HK$21,421,000 on acquisition of property, plant and equipment (six months ended 30 September 2006: approximately HK$10,687,000).

As at 30 September 2007, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK$53,382,000 (31 March 2007: approximately HK$80,104,000); and capital expenditure authorised but not contracted for of approximately HK$358,743,000 (31 March 2007: approximately HK$347,771,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2007 (31 March 2007 : nil).

Significant Investment

Apart from the Huzhou project, the Group did not have any significant investment plans or any significant investment held as at 30 September 2007.

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 2007, the Group employed approximately 220 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including directors' emoluments) amounted to approximately HK$5,736,000 for the period under review (six months ended 30 September 2006 : approximately HK$5,427,000). 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 2007, 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 *(Note)*	Beneficiary of a trust	1,410,852,520	35.93%

Note: These shares are 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 International"). Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members other than her spouse).

Save as disclosed above, as at 30 September 2007, 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 2007 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 Listing Rules. No share options have been granted or outstanding under the Scheme since its adoption.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2007, 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:

Name of substantial shareholder	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Koon Wing Yee *(Note a)*	Interest of spouse	1,410,852,520	35.93%
Landmark Profits Limited *(notes a and b)*	Beneficial owner	1,410,852,520	35.93%
Easyknit International *(notes a and b)*	Interest of controlled corporation	1,410,852,520	35.93%
Magical Profits Limited *(Notes a & c)*	Interest of controlled corporation	1,410,852,520	35.93%
Accumulate More Profits Limited *(Notes a & c)*	Interest of controlled corporation	1,410,852,520	35.93%
Hang Seng Bank Trustee International Limited *(Notes a & d)*	Trustee	1,410,852,520	35.93%
Hang Seng Bank Limited *(Note d)*	Interest of controlled corporation	1,410,852,520	35.93%
The Hongkong and Shanghai Banking Corporation Limited *(Notes d)*	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Asia Holdings BV *(Note d)*	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Asia Holdings (UK) *(Note d)*	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Holdings BV *(Note d)*	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Finance (Netherlands) *(Note d)*	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Holdings plc *(Note d)*	Interest of controlled corporation	1,410,852,520	35.93%

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 the Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International 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 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 International.

(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) Hang Seng Bank Trustee International Limited was a wholly-owned subsidiary of Hang Seng Bank Limited. Hang Seng Bank Limited was owned as to approximately 62.14% by The Hongkong and Shanghai Banking Corporation Limited. The Hongkong and Shanghai Banking Corporation Limited was wholly-owned by HSBC Asia Holdings BV which was a wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) was wholly-owned by HSBC Holdings BV which in turn was wholly-owned by HSBC Finance (Netherlands). HSBC Finance (Netherlands) was a wholly-owned subsidiary of HSBC Holdings plc.

Save as disclosed above, as at 30 September 2007, 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 has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2007.

EXECUTIVE COMMITTEE

The Executive Committee currently comprises all the executive directors of the Company, namely Mr. Tse Wing Chiu, Ricky (Committee Chairman), Ms. Lui Yuk Chu and Mr. Kwong Jimmy Cheung Tim. It meets as and when required between regular Board meetings of the Company, and operates as a general management committee under the direct authority of the Board. Within the parameters of authority delegated by the Board, the Executive Committee implements the Group's strategy set by the Board, monitors the Group's investment and trading performance, appraises the funding and financing requirements, and reviews the management performance.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon (Committee Chairman), Mr. Lau Sin Ming, and Mr. Foo Tak Ching. The Audit Committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2007.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Lau Sin Ming (Committee Chairman), Mr. Kan Ka Hon and Mr. Foo Tak Ching. The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all remuneration of directors and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES IN THE LISTING RULES

During the six months ended 30 September 2007, the Company complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in the Appendix 14 to the Listing Rules except for the following deviations:

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES IN THE LISTING RULES *(Cont'd)*

Code Provision A.2.1

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term.

The non-executive directors are not appointed for a specific term but they are subject to retirement by rotation and re-election at least once for every 3 annual general meetings pursuant 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 it is bound by the provisions of the Act, the Bye-Laws of the Company cannot be amended to fully fulfil the requirements of the Code in this regard.

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 (contrary to "directors and senior management" under the Code Provision B.1.3(a)); and should "review" (contrary to "determine" under the Code provision B.1.3(b)) and make recommendations to the Board on the remuneration packages of "executive directors" only (contrary to "executive directors and senior management" under the Code Provisions B.1.3(b)).

The reasons for the above deviations are set out on page 11 of the Company's annual report for the financial year ended 31 March 2007.

MODEL CODE FOR SECURITES TRANSACTIONS BY DIRECTORS SET OUT IN APPENDIX 10 TO THE LISTING RULES

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 2007.

By Order of the Board of
Easyknit Enterprises Holdings Limited
Tse Wing Chiu, Ricky
Chairman and Chief Executive Officer

Hong Kong, 28 November 2007

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