



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司

(Stock Code 股份代號 : 0616)

2008

Interim Report
中期業績報告

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 2008 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 2008**

		Six months ended	
		30 September	
	<i>NOTES</i>	2008	2007
		HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Turnover	3	23,875	38,443
Cost of sales and services		(25,769)	(36,685)
		<hr/>	<hr/>
Gross (loss) profit		(1,894)	1,758
Other income		1,143	999
Distribution costs		(301)	(213)
Administrative expenses		(7,614)	(7,251)
Other expenses		(1,236)	(8,201)
Allowance for doubtful debts		(4,232)	—
Finance costs		(475)	(39)
		<hr/>	<hr/>
Loss before taxation	4	(14,609)	(12,947)
Taxation	5	(796)	—
		<hr/>	<hr/>
Loss for the period		(15,405)	(12,947)
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Basic loss per share	6	HK cents (23.7)	HK cents (33.0)
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**CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2008**

	NOTES	30 September 2008 HK\$'000 (Unaudited)	31 March 2008 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	123,400	102,831
Prepaid lease payments	8	41,230	40,667
Deposits for acquisition of property, plant and equipment		18,161	17,725
		182,791	161,223
Current assets			
Inventories		9,478	5,818
Trade and other receivables	9	25,969	25,698
Prepaid lease payments	8	878	857
Pledged deposit		10,000	—
Bank balances and cash		95,457	139,753
		141,782	172,126
Current liabilities			
Trade and other payables	10	24,279	26,000
Bills payable	11	5,335	1,818
Convertible note	12	—	33,750
Tax payable		5,734	4,816
		35,348	66,384
Net current assets		106,434	105,742
Net assets		289,225	266,965
Capital and reserves			
Share capital	13	667	58,906
Reserves		288,558	208,059
		289,225	266,965

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Share capital HK\$'000	Share premium HK\$'000	Convertible note equity reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2008 (audited)	58,906	246,094	4,128	53,194	714	17,711	(113,782)	266,965
Exchange differences arising on translation of foreign operations	—	—	—	—	—	3,501	—	3,501
Loss for the period	—	—	—	—	—	—	(15,405)	(15,405)
Total recognised income and expense for the period	—	—	—	—	—	3,501	(15,405)	(11,904)
On conversion of convertible note (see note 13(b))	7,843	30,449	(4,128)	—	—	—	—	34,164
Reduction of capital upon capital reorganisation (see note 13(d))	(66,082)	—	—	—	—	—	66,082	—
At 30 September 2008 (unaudited)	<u>667</u>	<u>276,543</u>	<u>—</u>	<u>53,194</u>	<u>714</u>	<u>21,212</u>	<u>(63,105)</u>	<u>289,225</u>
At 1 April 2007 (audited)	39,271	164,288	—	53,194	714	7,138	(95,971)	168,634
Exchange differences arising on translation of foreign operations	—	—	—	—	—	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 (unaudited)	<u>39,271</u>	<u>164,288</u>	<u>—</u>	<u>53,194</u>	<u>714</u>	<u>10,097</u>	<u>(108,918)</u>	<u>158,646</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(15,106)	11,295
Net cash used in investing activities		
Purchase of property, plant and equipment	(20,354)	(21,421)
Increase in pledged deposit	(10,000)	—
Prepaid lease payment	—	(6,361)
Other investing cash flows	1,119	213
	(29,235)	(27,569)
Net cash used in financing activities		
Bank loans raised	—	2,043
Repayment of bank loans	—	(8,081)
Other financing cash flows	(61)	(39)
	(61)	(6,077)
Net decrease in cash and cash equivalents	(44,402)	(22,351)
Cash and cash equivalents at beginning of the period	139,753	29,392
Effect of foreign exchange rate changes	106	439
Cash and cash equivalents at end of the period, represented by bank balances and cash	95,457	7,480

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

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 2008.

In the current interim period, the Group has applied, for the first time, the following new amendments and interpretations ("new Amendments and Interpretations") issued by the HKICPA which are effective for the Group's financial period beginning 1 April 2008.

HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of these new Amendments and Interpretations 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 and revised standards, amendments 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 2008

	Bleaching and dyeing HK\$'000	Knitting HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover				
External	23,789	86	—	23,875
Inter-segment (note)	—	16,242	(16,242)	—
	<u>23,789</u>	<u>16,328</u>	<u>(16,242)</u>	<u>23,875</u>
Total				
	<u>23,789</u>	<u>16,328</u>	<u>(16,242)</u>	<u>23,875</u>
Segment results	<u>(9,454)</u>	<u>(910)</u>	<u>—</u>	<u>(10,364)</u>
Interest income				1,119
Unallocated corporate expenses				(4,889)
Finance costs				(475)
Loss before taxation				<u>(14,609)</u>
Taxation				(796)
Loss for the period				<u><u>(15,405)</u></u>

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

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)	—
	<u>38,411</u>	<u>4,597</u>	<u>(4,565)</u>	<u>38,443</u>
Total				
	<u>38,411</u>	<u>4,597</u>	<u>(4,565)</u>	<u>38,443</u>
Segment results	<u>(692)</u>	<u>(683)</u>	<u>—</u>	<u>(1,375)</u>
Interest income				213
Unallocated corporate expenses				(11,746)
Finance costs				(39)
Loss for the period				<u><u>(12,947)</u></u>

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

4. LOSS BEFORE TAXATION

Six months ended	
30 September	
2008	2007
HK\$'000	HK\$'000

Loss before taxation has been arrived at after charging:

Depreciation	1,842	1,786
Professional fees for a possible merger (<i>note</i>)	—	8,201
Total staff costs (including directors' emoluments)	4,776	5,736
	<u> </u>	<u> </u>

Note:

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") resulting from a non-binding letter of intent dated 29 November 2006 and two subsequent non-binding heads of agreements. Wits Basin is a company incorporated in Minnesota, the United States of America whose principal business was the exploration and development of minerals in Mexico, Colorado and South Africa.

There were subsequent litigations between the Group and Wits Basin. On 19 December 2007, the Group entered into a settlement agreement and general release (the "Settlement and Release") to terminate the possible merger and litigations with Wits Basin. Details of these are included in note 29 of the Group's annual financial statements for the year ended 31 March 2008.

Professional fees incurred during the six months ended 30 September 2007 in relation to the possible merger and the Settlement and Release amounted to HK\$8,201,000, which have been charged to the consolidated income statement during that period and included in other expenses.

5. TAXATION

Six months ended	
30 September	
2008	2007
HK\$'000	HK\$'000

The charge comprises:

PRC enterprise income tax		
– current period	796	—
	<u> </u>	<u> </u>

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods.

Pursuant to Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises in Mainland China (the "PRC"), the Company's subsidiaries in the PRC are entitled to preferential tax treatment with full exemption from the 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 the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate to 25% for the Company's PRC subsidiaries since 1 January 2008.

6. BASIC LOSS PER SHARE

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

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Loss for the purposes of basic loss per share	(15,405)	(12,947)
	Number of shares	
Weighted average number of shares for the purposes of basic loss per share	65,011,144	39,270,752

The denominator for the purposes of calculating basic loss per share for the six months ended 30 September 2007 has been adjusted to reflect the consolidation of shares on the basis that 100 shares were consolidated into one share in September 2008.

7. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group spent HK\$20,354,000 on acquisition of property, plant and equipment (the prior period: HK\$21,421,000).

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 2008, the relevant PRC authority has not vacated certain land of carrying amount of HK\$37,543,000 (31.3.2008: HK\$37,020,000) for the use by the Group, HK\$21,250,000 (31.3.2008: HK\$20,954,000) of which have yet to be granted the land use rights certificates.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 60 days to its customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	30 September 2008	31 March 2008
	HK\$'000	HK\$'000
0 - 60 days	10,640	7,616
61 - 90 days	3,685	5,536
Over 90 days	9,559	11,715
Trade receivables	23,884	24,867
Prepayments	334	620
Other receivables	1,751	211
	25,969	25,698

10. TRADE AND OTHER PAYABLES

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

	30 September 2008 HK\$'000	31 March 2008 HK\$'000
0 - 60 days	5,245	3,016
61 - 90 days	163	1,206
Over 90 days	27	598
	<hr/>	<hr/>
Trade payables	5,435	4,820
Accruals	18,087	20,090
Other payables	757	1,090
	<hr/>	<hr/>
	24,279	26,000
	<hr/> <hr/>	<hr/> <hr/>

11. BILLS PAYABLE

At the balance sheet date, all bills payable were aged within 120 days.

12. CONVERTIBLE NOTE

Convertible note containing liability and equity components

In March 2008, the Company issued to an independent third party a convertible note at its par value of HK\$37,650,000. The convertible note is denominated in Hong Kong dollars. The note entitles the holder to convert it into ordinary shares of the Company at any time between the date of issue of the note on 12 March 2008 and its settlement date on 11 March 2009 at a conversion price of HK\$0.048 per conversion share (subject to adjustment). Assuming full conversion of the convertible note at a conversion price of HK\$0.048 at the date of issue of the note, the convertible note would have been convertible into 784,375,000 new ordinary shares of HK\$0.01 each in the share capital of the Company. The converted shares would be allotted and issued under the general mandate granted to the directors of the Company at the 2007 annual general meeting of the Company held on 16 August 2007. If the convertible note has not been converted, it would be redeemed on 11 March 2009 at par. Interest of 1% per annum will be paid semi-annually in arrears up until the settlement date.

The convertible note contains two components, liability and equity elements. The equity component is presented in equity heading "convertible note equity reserve". The effective interest rate of the liability component is 13.08% per annum.

During April to June 2008, the convertible note was converted into 784,375,000 new ordinary shares of HK\$0.01 each of the Company at the conversion price of HK\$0.048 per conversion share.

The movement of the liability component of the convertible note during the six months ended 30 September 2008 is set out below:

	HK\$'000
Carrying amount at 1 April 2008	33,750
Interest charge	475
Interest paid	(61)
On conversion during the period	(34,164)
	<hr/>
Carrying amount at 30 September 2008	—
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13. SHARE CAPITAL

	Notes	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2007 and 31 March 2008		0.01	20,000,000,000	200,000
Reduction of share capital	(d)(ii)		—	(198,000)
Consolidation of shares	(d)(iii)	0.0001	20,000,000,000 (19,800,000,000)	2,000 —
Increase	(d)(iv)	0.01 0.01	200,000,000 19,800,000,000	2,000 198,000
At 30 September 2008		0.01	<u>20,000,000,000</u>	<u>200,000</u>
Issued and fully paid:				
At 1 April 2007		0.01	3,927,075,240	39,271
Rights issue of share	(a)	0.01	1,963,537,620	19,635
At 31 March 2008		0.01	5,890,612,860	58,906
On conversion of convertible note	(b)	0.01	784,375,000	7,843
Exercise of share options	(c)	0.01 0.01	6,674,987,860 2,140	66,749 —
Reduction of share capital	(d)(i)		6,674,990,000 —	66,749 (66,082)
Consolidation of shares	(d)(iii)	0.0001	6,674,990,000 (6,608,240,100)	667 —
At 30 September 2008		0.01	<u>66,749,900</u>	<u>667</u>

13. SHARE CAPITAL (Cont'd)

Notes:

- (a) On 21 January 2008, the Company allotted 1,963,537,620 rights shares of HK\$0.01 each at the subscription price of HK\$0.052 per rights share on the basis of one rights share for every two existing ordinary shares held. The Company raised HK\$101,441,000 (net of expenses) with the intention to finance the development of manufacturing operations in the PRC and for general working capital use.
- (b) On 17 April 2008, 30 April 2008 and 12 June 2008, the holder of the Group's convertible note exercised his conversion right and converted the convertible note at its par value of HK\$37,650,000 into 784,375,000 new ordinary shares of HK\$0.01 each in the share capital of the Company at a conversion price of HK\$0.048 per conversion share.
- (c) On 18 August 2008, an option to subscribe for a total of 2,140 ordinary shares of HK\$0.01 each of the Company at a subscription price of HK\$0.0162 per share was granted to an employee pursuant to the Company's share option scheme adopted on 6 June 2002. The share options are exercisable within 14 days after the date of acceptance. The employee accepted the offer on 19 August 2008 for a nominal consideration of HK\$1 and exercised the share options in full also on 19 August 2008.

In the opinion of the directors, the estimated fair value of the share options granted on 18 August 2008 was insignificant.

- (d) As announced by the Company on 14 August 2008, the Company proposed to effect (i) reduction of the nominal value of each issued share from HK\$0.01 each to HK\$0.0001 each by cancelling HK\$0.0099 paid up share capital for each share in issue ("Issued Capital Reduction"); (ii) reduction of the nominal value of all shares in the authorised share capital of the Company from HK\$0.01 each to HK\$0.0001 each, resulting in the reduction of the authorised share capital from HK\$200,000,000 to HK\$2,000,000 divided into 20,000,000,000 shares of HK\$0.0001 each; (iii) a share consolidation pursuant to which every one hundred issued and unissued then existing shares of HK\$0.0001 each were consolidated into one consolidated share of HK\$0.01 each; (iv) increase of the authorised share capital from HK\$2,000,000 divided into 200,000,000 consolidated shares of HK\$0.01 each to HK\$200,000,000 divided into 20,000,000,000 consolidated shares of HK\$0.01 each by the creation of 19,800,000,000 new consolidated shares; and (v) transfer of credit arising from the Issued Capital Reduction with the amount of HK\$66,082,401 to set off against part of the accumulated losses of the Company. The above are collectively referred to the "Capital Reorganisation". Details of the Capital Reorganisation are set out, inter alia, in the circular of the Company dated 29 August 2008. A special resolution approving the Capital Reorganisation was passed at the special general meeting of the Company held on 22 September 2008. The Capital Reorganisation became effective on 23 September 2008.

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

14. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group received administrative services from wholly-owned subsidiaries of Easyknit International Holdings Limited ("Easyknit International") and paid service fee as follows:

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Grand Modern Investment Limited	—	80
Easyknit Global Company Limited	120	40
	120	120

Ms. Lui Yuk Chu, a director of the Company, has beneficial interests in Easyknit International and the Company is an associate of Easyknit International.

During the six months ended 30 September 2007, the Group also purchased a motor vehicle amounting to HK\$576,000 from Grand Modern Investment Limited.

- (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	
	2008	2007
	HK\$'000	HK\$'000
Short-term employee benefits	1,545	2,010

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 2008 HK\$'000	31 March 2008 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment		
– Contracted for but not provided	26,101	45,654
– Authorised but not contracted for	394,524	384,636
	<hr/> 420,625 <hr/>	<hr/> 430,290 <hr/>

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

16. POST BALANCE SHEET EVENT

As announced by the Company on 12 November 2008, the Company proposed a rights issue of 667,499,000 rights shares of HK\$0.01 each at a subscription price of HK\$0.15 per rights share on the basis of ten rights shares for every existing share of the Company held.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2008 (six months ended 30 September 2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

During the six month ended 30 September 2008, the Group recorded a turnover of approximately HK\$23,875,000 (six months ended 30 September 2007: approximately HK\$38,443,000), representing a decrease of approximately 37.9% from the same period last year. The cost of sales reduced by approximately 29.8% to approximately HK\$25,769,000 (six months ended 30 September 2007: approximately HK\$36,685,000). The Group recorded a gross loss of approximately HK\$1,894,000 (six months ended 30 September 2007: gross profit of approximately HK\$1,758,000). The gross loss was due to the increase in fixed production cost per unit as a result of decrease in sales and the increase in direct material costs during the period.

Loss attributable to shareholders increased approximately 19.0% to approximately HK\$15,405,000 (six months ended 30 September 2007: approximately HK\$12,947,000). Loss per share for the period was approximately HK cents 23.7 (six months ended 30 September 2007: approximately HK cents 33.0).

The Group's total operating expenses reduced to approximately HK\$9,151,000 as compared to the same period last year of HK\$15,665,000. The reduction of approximately 41.6% was mainly due to the provision made for legal and professional fees of approximately HK\$8,201,000 in relation to the proposed merger with Wits Basin Precious Minerals Inc., a company incorporated in the United States of America, in the last corresponding period, but no such expenses was incurred for this period.

Finance costs was increased approximately 1,117.9% to approximately HK\$475,000 (six months ended 30 September 2007: approximately HK\$39,000) principally by reason of the imputed interest on the 1% HK\$37,650,000 convertible note due in March 2009, details of which are shown in section "Capital Structure" below.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Business Review

The bleaching and dyeing business continued to be the principal business of the Group and contributed to approximately 99.6% of the Group's total turnover during the period under review, whereas the knitting business accounted for the remaining approximately 0.4% of the total turnover of the Group.

Turnover for the bleaching and dyeing business reduced by approximately 38.1% to approximately HK\$23,789,000 (six months ended 30 September 2007: approximately HK\$38,411,000). This segment suffered a loss of approximately HK\$9,454,000 (six months ended 30 September 2007: HK\$692,000). The loss from this segment were due to the increase in fixed production cost per unit as a result of decrease in sales, the increase in direct material costs and the allowance of doubtful debts of approximately HK\$4,232,000 made during the period.

The knitting business contributed approximately HK\$86,000 to the Group's total turnover for the period under review (six months ended 30 September 2007: approximately HK\$32,000). Taking into account the portion of inter-segment sales, the turnover derived from this business rose by 255.2% to approximately HK\$16,328,000 (six months ended 30 September 2007: approximately HK\$4,597,000). Loss from this segment increased to approximately HK\$910,000 as compared to approximately HK\$683,000 for the same period in last year. The increase was due to the rise in the price of cotton yarn, a raw material for knitting production, during the period under review.

Geographical analysis

During the period, the Group's turnover was mainly derived from sales made to customers in Hong Kong with manufacturing operations located in the PRC.

Development on the Huzhou Project

Construction work on the approximately 251 mu land granted and delivered for the garment manufacturing operation is substantially finished and is waiting for the government authority to grant the completion certificate.

The Huzhou Government has now indicated that it will be able to deliver the possession of the remaining two parcels of land with an aggregate area of approximately 381 mu for our proposed bleaching and dyeing, and knitting capabilities, as well as the land use right certificate for the bleaching and dyeing operation. Negotiation is still being carried out with the Huzhou Government for a revision of the contractual terms to the benefit of the Group as the previous delay was entirely due to the Huzhou Government.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Prospects

The directors of the Company anticipate that the businesses of the Group will feel the impact of a declining market. Facing with present worldwide adverse financial condition, the Group will focus in implementing more effective control in production cost and improving its product quality in order to serve the customers which have continued to place orders with the Group.

As regard to the Huzhou Project, the directors will continue to keep track of the transfer of the remaining two parcels of land to the Group. When the land is transferred to the Group, construction works will be started as quickly as possible. Notwithstanding the problems occasioned by the long delay on the part of the Huzhou Government in delivering the land to the Group and the downturn in the global economy, the Group is still minded to pursue the plans of the Huzhou Project but shall not excluded other options, which will be of benefit to the Group in the forthcoming negotiation with the Huzhou Government, especially after the property ownership certificate is granted and the existing garment manufacturing premises can be put to commercial use.

Liquidity and Financial Resources

During the six months ended 30 September 2008, the Group financed its operations mainly by internally generated resources. Shareholders' funds of the Group as at 30 September 2008 was approximately HK\$289,225,000 (31 March 2008: approximately HK\$266,965,000). As the Group had no bank borrowings and convertible note as at 30 September 2008 (31 March 2008: liability component of convertible note of HK\$33,750,000), no gearing ratio of the Group was presented (31 March 2008: 0.126).

The Group continued to sustain a liquidity position. As at 30 September 2008, the Group had net current assets of approximately HK\$106,434,000 (31 March 2008: approximately HK\$105,742,000) and cash and cash equivalents of approximately HK\$95,457,000 (31 March 2008: approximately HK\$139,753,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and Renminbi. As at 30 September 2008, the Group's current ratio was approximately 4.0 (31 March 2008: approximately 2.6), which was calculated on the basis of current assets of approximately HK\$141,782,000 (31 March 2008: approximately HK\$172,126,000) to current liabilities of approximately HK\$35,348,000 (31 March 2008: approximately HK\$66,384,000). The rise in the current ratio was primarily due to the decrease in current liabilities by approximately HK\$31,036,000. 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. The directors will remain cautious in the Group's liquidity management.

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 on 3 and 12 March 2008, the Company issued a convertible note with a principal amount of HK\$37,650,000 to Mr. Chen Tien Tui at the initial conversion price of HK\$0.048 per share. Interest rate is at 1% per annum payable semi-annually in arrears. Maturity date is one year after the issuance.

During the period between April and June 2008, the whole of the principal amount of the convertible note of HK\$37,650,000 had been converted at the initial conversion price. As a result of the conversion, a total of 784,375,000 shares were allotted and duly issued.

At the special general meeting of the Company held on 22 September 2008, a special resolution approving the capital reorganisation (as detailed below) was passed and the capital reorganisation became effective on 23 September 2008.

- (a) the reduction of the issued share capital of the Company by cancelling the paid up capital to the extent of HK\$0.0099 on each issued share such that the nominal value of all the issued shares will be reduced from HK\$0.01 each to HK\$0.0001 each (the "Issued Capital Reduction");
- (b) the reduction of the nominal value of all shares in the authorised share capital of the Company from HK\$0.01 each to HK\$0.0001 each, resulting in the reduction of the authorised share capital from HK\$200,000,000 to HK\$2,000,000 divided into 20,000,000,000 shares of HK\$0.0001 each (the "Authorised Capital Reduction");
- (c) the consolidation of every one hundred (100) issued and unissued shares of HK\$0.0001 each in the issued and unissued share capital of the Company (the "Share Consolidation") into one (1) share of HK\$0.01 each ("Consolidated Share");
- (d) the increase of the authorised share capital of the Company from HK\$2,000,000 divided into 200,000,000 Consolidated Shares of HK\$0.01 each to HK\$200,000,000 divided into 20,000,000,000 Consolidated Shares of HK\$0.01 each by the creation of 19,800,000,000 new Consolidated Shares (the "Authorised Capital Increase"); and
- (e) the transfer of the credit amount arising from the Issued Capital Reduction to the contributed surplus account of the Company and the application of the sum of HK\$66,082,401 in the contributed surplus account of the Company to set off against part of the accumulated losses of the Company, which amounted to HK\$131,747,676.06 as at 31 March 2008.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Capital Structure *(Cont'd)*

Further details of the above capital reorganisation are set out in the Company's circular dated 29 August 2008.

On 5 November 2008, the Company entered into an underwriting agreement in relation to the proposed rights issue of 667,499,000 rights shares at the subscription price of HK\$0.15 per rights share on the basis of ten rights shares for every existing share held. Details of the proposed rights issue are set out in the Company's announcement dated 12 November 2008.

Save as disclosed above, the Group had no debt securities or other capital instruments as at 30 September 2008 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 2008.

Charges on Group Assets

Except for the pledged deposit of HK\$10,000,000 as shown in the condensed consolidated balance sheet at 30 September 2008, the Group did not have any other charges on assets as at 30 September 2008.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2008, the Group spent approximately HK\$20,354,000 on acquisition of property, plant and equipment (six months ended 30 September 2007: approximately HK\$21,421,000).

As at 30 September 2008, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK\$26,101,000 (31 March 2008: approximately HK\$45,654,000); and capital expenditure authorised but not contracted for of approximately HK\$394,524,000 (31 March 2008: approximately HK\$384,636,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2008 (31 March 2008: 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 2008.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

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 2008, the Group employed approximately 170 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including directors' emoluments) amounted to approximately HK\$4,776,000 for the period under review (six months ended 30 September 2007: approximately HK\$5,736,000). 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 2008, 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	21,162,787	31.70%

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).

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

Save as disclosed above, as at 30 September 2008, 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 2008 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 "Share Option 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"). A summary of the movements of the Company's share options during the period under review was as follows:

Date of grant	Number of share options (Note a)			At 30 September 2008	Exercise price per share option	Exercise period
	At 1 April 2008	Granted during the period	Exercised during the period			
18 August 2008	—	2,140	(2,140)	—	HK\$0.0162 (note a)	18 August 2008 to 31 August 2008 (note b)

Notes:

- The number and exercise price of the share options had not been adjusted to reflect the one hundred-to-one share consolidation effective 23 September 2008.
- The share options had no vesting period and are exercisable from the date of grant.

Save as disclosed above, no options were granted, exercised or cancelled under the Share Option Scheme during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, 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	21,162,787	31.70%
Landmark Profits Limited (notes a and b)	Beneficial owner	21,162,787	31.70%
Easyknit International (notes a and b)	Interest of controlled corporation	21,162,787	31.70%
Magical Profits Limited (Notes a & c)	Interest of controlled corporation	21,162,787	31.70%
Accumulate More Profits Limited (Note a)	Interest of controlled corporation	21,162,787	31.70%
Hang Seng Bank Trustee International Limited (Notes a & d)	Trustee	21,162,787	31.70%
Hang Seng Bank Limited (Note d)	Interest of controlled corporation	21,162,787	31.70%
The Hongkong and Shanghai Banking Corporation Limited (Note d)	Interest of controlled corporation	21,162,787	31.70%
HSBC Asia Holdings BV (Note d)	Interest of controlled corporation	21,162,787	31.70%
HSBC Asia Holdings (UK) (Note d)	Interest of controlled corporation	21,162,787	31.70%
HSBC Holdings BV (Note d)	Interest of controlled corporation	21,162,787	31.70%
HSBC Finance (Netherlands) (Note d)	Interest of controlled corporation	21,162,787	31.70%
HSBC Holdings plc (Note d)	Interest of controlled corporation	21,162,787	31.70%

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Notes:

- (a) The 21,162,787 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 21,162,787 shares by virtue of the SFO.
- (b) Mr. Kwong Jimmy Cheung Tim 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.
- (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 2008, 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 OR 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 2008.

EXECUTIVE COMMITTEE

The Executive Committee currently comprises all the executive directors of the Company, namely Mr. Kwong Jimmy Cheung Tim (Committee Chairman) and Ms. Lui Yuk Chu. 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 management and the Company's auditor 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 2008.

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 2008, 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 the following deviations:

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. Kwong Jimmy Cheung Tim 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.

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

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 deviation are set out on page 12 of the Company's annual report for the financial year ended 31 March 2008.

MODEL CODE FOR SECURITIES 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 2008.

By order of the Board of
Easyknit Enterprises Holdings Limited
Kwong Jimmy Cheung Tim
Chairman and Chief Executive Officer

Hong Kong, 1 December 2008

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