



EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永 義 國 際 集 團 有 限 公 司

(Stock Code 股份代號: 1218)

Interim Report

2006

中 期 業 績 報 告



The board of directors of Easyknit International 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	257,628	261,836
Cost of sales		<u>(209,199)</u>	<u>(214,046)</u>
Gross profit		48,429	47,790
Other income		5,991	3,630
Distribution costs		(6,961)	(6,182)
Administrative expenses		(24,230)	(23,684)
Gain arising on change in fair value of investment properties		5,600	157,030
Gain (loss) arising on change in fair value of investments		789	(151,070)
Impairment loss on trade and other receivables	5	—	(33,302)
Impairment loss on available-for-sale investments		(14,147)	—
Loss on disposal of available-for-sale investments		(15,134)	—
Loss on disposal of investments held for trading		(615)	—
Loss on disposal of investment properties		—	(1,136)
Share of results of associates		(1,640)	(2,496)
Finance costs	6	<u>(30)</u>	<u>(3,115)</u>
Loss before taxation	4	(1,948)	(12,535)
Taxation	7	<u>(163)</u>	<u>(1,403)</u>
Loss for the period attributable to equity holders of the Company		<u>(2,111)</u>	<u>(13,938)</u>
Loss per share	8	<u>(1.1) HK cents</u>	<u>(10.2) HK cents</u>

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

	<i>NOTES</i>	30.9.2006 HK\$'000 (Unaudited)	31.3.2006 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	10	25,143	24,190
Properties held for re-development	11	155,675	—
Investment properties	12	595,300	589,700
Intangible assets		921	921
Interests in associates		62,043	62,887
Available-for-sale investments		101,411	93,987
		<hr/> 940,493 <hr/>	<hr/> 771,685 <hr/>
Current assets			
Properties held for sale		10,842	14,426
Investments held for trading		41,222	3,600
Inventories		9,371	7,766
Trade and other receivables	13	52,610	72,226
Loans receivable		11,512	66,053
Bills receivable	14	17,472	17,220
Tax recoverable		301	301
Bank balances and cash		138,116	174,580
		<hr/> 281,446 <hr/>	<hr/> 356,172 <hr/>
Current liabilities			
Trade and other payables	15	38,128	41,754
Bills payable	14	4,042	4,514
Tax payable		24,339	24,364
Bank borrowings	16	642	3,819
		<hr/> 67,151 <hr/>	<hr/> 74,451 <hr/>
Net current assets		<hr/> 214,295 <hr/>	<hr/> 281,721 <hr/>
		<hr/> 1,154,788 <hr/>	<hr/> 1,053,406 <hr/>
Capital and reserves			
Share capital	17	198,551	132,367
Reserves		933,596	898,561
		<hr/> 1,132,147 <hr/>	<hr/> 1,030,928 <hr/>
Non-current liabilities			
Deferred taxation	18	22,641	22,478
		<hr/> 1,154,788 <hr/>	<hr/> 1,053,406 <hr/>

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

	Attributable to equity holders of the Company								Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Investment revaluation reserve HK\$'000	Share option reserve HK\$'000	Accumulated profits HK\$'000	
At 1 April 2006	132,367	4,412	737	9,800	220,937	(191,630)	1,900	852,405	1,030,928
Change in fair value of available-for-sale investments	—	—	—	—	—	(5,666)	—	—	(5,666)
Share of exchange reserve of associates	—	—	796	—	—	—	—	—	796
Net gain (loss) recognised directly in equity	—	—	796	—	—	(5,666)	—	—	(4,870)
Released on disposal of available-for-sale investments	—	—	—	—	—	15,134	—	—	15,134
Impairment loss on available-for-sale investments	—	—	—	—	—	14,147	—	—	14,147
Loss for the period	—	—	—	—	—	—	—	(2,111)	(2,111)
Total recognised income and expense for the period	—	—	796	—	—	23,615	—	(2,111)	22,300
Rights issue of shares at a price of HK\$0.12 per rights share	66,184	13,237	—	—	—	—	—	—	79,421
Share issue expenses	—	(502)	—	—	—	—	—	—	(502)
At 30 September 2006	<u>198,551</u>	<u>17,147</u>	<u>1,533</u>	<u>9,800</u>	<u>220,937</u>	<u>(168,015)</u>	<u>1,900</u>	<u>850,294</u>	<u>1,132,147</u>
At 1 April 2005	132,367	4,412	—	9,800	220,937	—	—	686,172	1,053,688
Share of exchange reserve of associates	—	—	488	—	—	—	—	—	488
Net gain recognised directly in equity	—	—	488	—	—	—	—	—	488
Loss for the period	—	—	—	—	—	—	—	(13,938)	(13,938)
Total recognised income and expense for the period	—	—	488	—	—	—	—	(13,938)	(13,450)
2005 final dividend paid (see note 9)	—	—	—	—	—	—	—	(6,618)	(6,618)
At 30 September 2005	<u>132,367</u>	<u>4,412</u>	<u>488</u>	<u>9,800</u>	<u>220,937</u>	<u>—</u>	<u>—</u>	<u>665,616</u>	<u>1,033,620</u>

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

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	35,399	103,579
Net cash (used in) from investing activities		
Net cash inflow (outflow) from settlement (advance) of loans	54,541	(73,787)
Proceeds on disposal of investment properties	—	218,864
Capital contribution to associates	—	(51,303)
Acquisition of investments	—	(8,302)
Proceeds from disposal of investments held for trading	29,846	—
Payment of consideration repayable on disposal of subsidiaries	—	(11,120)
Acquisition of properties held for re-development	(155,503)	—
Acquisition of available-for-sale investments	(13,090)	—
Acquisition of investments held for trading	(67,294)	—
Other investing activities	3,925	2,356
	(147,575)	76,708
Net cash from (used in) financing activities		
Proceeds from rights issue of shares	78,919	—
Other financing activities	(3,207)	(48,411)
	75,712	(48,411)
Net (decrease) increase in cash and cash equivalents	(36,464)	131,876
Cash and cash equivalents at beginning of the period	174,580	83,901
Cash and cash equivalents at end of the period, represented by bank balances and cash	138,116	215,777

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

1. GENERAL AND 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 ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

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

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs 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, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendments or interpretations will have no material impact on the results and the financial positions of the Group.

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

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.

3. SEGMENT INFORMATION

Business segments

The Group's primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into three main operating divisions - garment sourcing and export, property investment and investment in securities.

For the six months ended 30 September 2006

	Garment sourcing and export	Property investment	Investment in securities	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
External	240,695	16,933	—	—	—	257,628
Inter-segment	—	1,655	—	—	(1,655)	—
	<u>240,695</u>	<u>18,588</u>	<u>—</u>	<u>—</u>	<u>(1,655)</u>	<u>257,628</u>
Result						
Segment result	<u>9,530</u>	<u>18,607</u>	<u>(28,388)</u>	<u>1,489</u>	<u>(1,516)</u>	<u>(278)</u>
Share of results of associates						(1,640)
Finance costs						(30)
Loss before taxation						(1,948)
Taxation						(163)
Loss for the period						<u>(2,111)</u>

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

For the six months ended 30 September 2005

	Garment sourcing and export	Property investment	Investment in securities	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
External	243,568	18,268	—	—	—	261,836
Inter-segment	—	1,655	—	—	(1,655)	—
	<u>243,568</u>	<u>19,923</u>	<u>—</u>	<u>—</u>	<u>(1,655)</u>	<u>261,836</u>
Result						
Segment result	<u>(24,671)</u>	<u>168,993</u>	<u>(151,070)</u>	<u>1,688</u>	<u>(1,864)</u>	<u>(6,924)</u>
Share of results of associates						(2,496)
Finance costs						(3,115)
Loss before taxation						(12,535)
Taxation						(1,403)
Loss for the period						<u>(13,938)</u>

4. LOSS BEFORE TAXATION

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Loss before taxation has been arrived at after charging:		
Depreciation and amortisation on property, plant and equipment	762	639
and after crediting:		
Dividend income from listed investments	719	126
	<u>762</u>	<u>639</u>

5. IMPAIRMENT LOSS ON TRADE AND OTHER RECEIVABLES

During the period ended 30 September 2005, an impairment loss on trade and other receivables of HK\$33,302,000 was provided in respect of the deposits to a supplier paid by the Group as a result of the voluntary liquidation of such supplier. No impairment loss on trade and other receivables is noted during the period ended 30 September 2006.

6. FINANCE COSTS

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years	30	3,115
	<u>30</u>	<u>3,115</u>

7. TAXATION

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	—	711
Deferred tax charge (note 18)	163	692
	<u>163</u>	<u>692</u>
Taxation charge attributable to the Company and its subsidiaries	163	1,403
	<u>163</u>	<u>1,403</u>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 September 2005: 17.5%) of the estimated assessable profit for the period.

No provision for Hong Kong Profits Tax has been made in the current period financial statements as the estimated assessable profit for the period is wholly absorbed by the tax loss brought forward.

8. LOSS PER SHARE

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

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Loss for the purposes of loss per share attributable to equity holders of the Company	(2,111)	(13,938)
	Number of shares	
	Weighted average number of shares for the purposes of loss per share	
	192,138,497	136,788,408

The weighted average number of shares for both periods has been adjusted for the issue of rights share and the consolidation of shares as mentioned in note 20(a) subsequent to 30 September 2006.

No diluted loss per share for the period ended 30 September 2006 is presented as the exercise price of the Company's outstanding share options was higher than the average market price for the period.

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

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for both periods.

During the period ended 30 September 2005, 2005 final dividend of 0.5 HK cents per share with the total amount of approximately HK\$6,618,000 was paid to shareholders. No dividend was paid during the period.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$1,715,000 (six months ended 30 September 2005: HK\$599,000) on acquisition of property, plant and equipment.

11. PROPERTIES HELD FOR RE-DEVELOPMENT

On 22 July 2006, the Group had acquired the right to acquire 18 out of 20 properties, which have been subsequently acquired at the same day on 22 July 2006, situated in Victory Avenue, Kowloon, Hong Kong (the "Building"), for a consideration of HK\$53,680,000, by way of acquisition of the entire issued share capital of Happy Light Investments Limited ("Happy Light"). This transaction has been reflected as a purchase of the Building. Other assets and liability acquired from Happy Light were insignificant.

12. INVESTMENT PROPERTIES

The Group's investment properties are held for rental purposes under operating leases. They were valued by Messrs. Knight Frank, a firm of independent professional valuers, on market value basis at 30 September 2006. The gain arising from changes in fair value of the investment properties of HK\$5,600,000 has been recognised in the condensed consolidated income statement for the six months ended 30 September 2006 (six months ended 30 September 2005: HK\$157,030,000).

13. TRADE AND OTHER RECEIVABLES

	30.9.2006 HK\$'000	31.3.2006 HK\$'000
Trade receivables	12,572	24,299
Deposits to suppliers	36,281	42,585
Other receivables	3,757	5,342
	<hr/> 52,610 <hr/>	<hr/> 72,226 <hr/>

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

	30.9.2006 HK\$'000	31.3.2006 HK\$'000
0 - 60 days	7,839	22,818
61 - 90 days	1,965	1,003
Over 90 days	2,768	478
	<hr/> 12,572 <hr/>	<hr/> 24,299 <hr/>

14. BILLS RECEIVABLE/BILLS PAYABLE

The bills receivable and bills payable of the Group are aged within 30 days and 90 days respectively.

15. TRADE AND OTHER PAYABLES

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

	30.9.2006 HK\$'000	31.3.2006 <i>HK\$'000</i>
0 - 60 days	20,597	26,009
61 - 90 days	18	2
Over 90 days	156	152
	20,771	26,163

16. BANK BORROWINGS

During the six months ended 30 September 2006, the Group repaid bank borrowings totalling HK\$27,369,000 (six months ended 30 September 2005: HK\$61,700,000) and obtained new bank borrowings totalling HK\$24,192,000 (six months ended 30 September 2005: HK\$19,917,000) of which the proceeds were used for general working capital of the Group.

17. SHARE CAPITAL

	Nominal value per share <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:			
At 1 April 2005, 31 March 2006 and 30 September 2006	0.10	10,000,000,000	1,000,000
Issued and fully paid:			
At 1 April 2005 and 31 March 2006	0.10	1,323,673,386	132,367
Rights issue of shares at price of HK\$0.12 per rights share (<i>note</i>)	0.10	661,836,693	66,184
At 30 September 2006	0.10	1,985,510,079	198,551

Note:

Rights issue of 661,836,693 rights shares of HK\$0.10 each at a subscription price of HK\$0.12 per rights share in the proportion of one rights share for every two shares of the Company held were allotted on 24 April 2006 to the shareholders of the Company. The Company raised approximately HK\$78,919,000 (net of directly attributable expenses), which was used for general working capital purpose. All shares issued rank pari passu with the then existing shares in issue in all respects.

18. DEFERRED TAXATION

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

	Accelerated tax depreciation <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2005	258	22,203	(8,948)	13,513
Charge (credit) to income statement	<u>25</u>	<u>16,764</u>	<u>(16,097)</u>	<u>692</u>
At 30 September 2005	283	38,967	(25,045)	14,205
Charge to income statement	<u>107</u>	<u>4,916</u>	<u>3,250</u>	<u>8,273</u>
At 31 March 2006	390	43,883	(21,795)	22,478
Charge (credit) to income statement	<u>99</u>	<u>874</u>	<u>(810)</u>	<u>163</u>
At 30 September 2006	<u><u>489</u></u>	<u><u>44,757</u></u>	<u><u>(22,605)</u></u>	<u><u>22,641</u></u>

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

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

	30.9.2006 <i>HK\$'000</i>	31.3.2006 <i>HK\$'000</i>
Tax losses	<u>116,527</u>	<u>123,781</u>

At 30 September 2006, the Group has unused tax losses of HK\$245,699,000 (31.3.2006: HK\$248,324,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$129,172,000 (31.3.2006: HK\$124,543,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$116,527,000 (31.3.2006: HK\$123,781,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except losses of HK\$36,131,000 (31.3.2006: HK\$36,131,000) which will be expired as follows:

	30.9.2006 <i>HK\$'000</i>	31.3.2006 <i>HK\$'000</i>
Year of expiry:		
2022	1,821	1,821
2023	2,163	2,163
2024	11,225	11,225
2025	13,272	13,272
2026	7,650	7,650
	<u>36,131</u>	<u>36,131</u>

19. RELATED PARTY TRANSACTIONS/CONNECTED PARTY TRANSACTIONS

(a) Connected party transactions

During the period, the Group had the following transactions with persons deemed to be "connected persons" by the Stock Exchange, being entities controlled by certain relatives of Ms. Lui Yuk Chu, a director of the Company:

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Sales of garments	—	5,180
Rental income	286	37
Purchases of garments	25,310	114,962
	<u> </u>	<u> </u>

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

	30.9.2006	31.3.2006
	HK\$'000	HK\$'000
Trade and other receivables	—	16
	<u> </u>	<u> </u>

(b) Related party transactions

During the six months ended 30 September 2006, the Group provided administrative services to Easykmit Enterprises Holdings Limited ("Easykmit Enterprises"), formerly known as Asia Alliance Holdings Limited, a company in which Ms. Lui Yuk Chu, a director of the Company, has beneficial interests, and received service income of HK\$120,000 from Easykmit Enterprises (six months ended 30 September 2005: HK\$120,000). The service income was determined based on mutually agreed terms.

The remuneration of directors and other members of key management during the period amounted to HK\$1,874,000 (six months ended 30 September 2005: HK\$3,104,000).

20. POST BALANCE SHEET EVENTS

- (a) As announced by the Company on 30 August 2006, The Company proposed to effect a share consolidation pursuant to which every ten issued and unissued then existing shares of HK\$0.1 each were consolidated into one consolidated share of HK\$1 each ("Consolidated Share") and reduction of par value of each Consolidated Share from HK\$1.00 each to HK\$0.01 each by cancelling HK\$0.99 paid up capital for each Consolidated Share in issue.

The Company also proposed to subdivide each unissued Consolidated Share into 100 new shares. The nominal value of issued shares will be reduced from HK\$1.00 each to HK\$0.01 each. The credit arising therefrom with the amount of approximately HK\$196,565,000 will be transferred to the capital reserve account ("Capital Reorganisation"). Details of the Capital Reorganisation are set out, inter alia, in the circular of the Company dated 17 October 2006. A special resolution approving the Capital Reorganisation was passed at the special general meeting of the Company held on 16 October 2006.

- (b) As announced by the Company on 30 August 2006, upon the completion of the Capital Reorganisation, the Company proposed to allot a rights issue of 595,653,021 rights shares of HK\$0.01 each at a subscription price of HK\$0.35 per rights share in the proportion of three rights share for every one share of the Company held. The rights issue is approved by shareholders upon the ordinary resolution dated 16 October 2006. Details of this are set out, inter alia, in the circular of the Company dated 17 October 2006.
- (c) As announced by the Company on 11 October 2006, the Group has disposed of certain available-for-sale investments for a consideration of approximately HK\$18,573,000. The carrying amount of this available-for-sale investment at 30 September 2006 was approximately HK\$19,139,000. The Group recognised a loss on disposal of approximately HK\$566,000 thereon. Details of the disposal are set out, inter alia, in the circular of the Company dated 27 October 2006.

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).

VOLUNTARY DELISTING FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

On 22 May 2006, the Company announced that the board of directors proposed to seek a voluntary delisting (the "Delisting") of the Company from the Official List of The Singapore Exchange Securities Trading Limited (the "SGX-ST") pursuant to Rule 1306 of the SGX-ST Listing Manual. A special resolution approving the Delisting was passed at the special general meeting of the Company held on 31 July 2006. The shares of the Company were removed from the Official List of the SGX-ST at the close of trading on 18 August 2006 and were delisted on the SGX-ST on 28 August 2006. After the Delisting, the shares of the Company continue to be listed and traded on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$257,628,000, representing a decrease of approximately 1.6% as compared to the same period last year (six months ended 30 September 2005: approximately HK\$261,836,000). Gross profit slightly increased by approximately 1.3% to approximately HK\$48,429,000 as compared to approximately HK\$47,790,000 for the corresponding period last year.

Loss attributable to shareholders amounted to approximately HK\$2,111,000, as compared to the loss of approximately HK\$13,938,000 for the same period last year. Such remarkable reduction in loss resulted largely from the increase in other revenue of approximately HK\$2,361,000, reduction in share of loss of associates and finance costs of approximately HK\$856,000 and approximately HK\$3,085,000 respectively, as well as the one-off loss arising on change in fair value of investments of approximately HK\$151,070,000, impairment loss on trade and other receivables of approximately HK\$33,302,000 and loss on disposal of investment properties of approximately HK\$1,136,000 during the same period in 2005. This was partly offset by the loss on disposal of available-for-sale investments of approximately HK\$15,134,000, impairment loss recognized on available-for-sale investments of approximately HK\$14,147,000, and decrease in gain on fair value changes of investment properties of approximately HK\$151,430,000. Loss per share were approximately 1.1 HK cents (six months ended 30 September 2005: loss per share of approximately 10.2 HK cents).

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Financial Results *(Cont'd)*

Cost of sales dropped by approximately 2.3% to approximately HK\$209,199,000 from approximately HK\$214,046,000 for the corresponding period last year, primarily due to stringent cost control measures and reduction in sales for the period under review. Total operating expenses went up by approximately 4.4% to approximately HK\$31,191,000 (six months ended 30 September 2005: approximately HK\$29,866,000).

Finance costs reduced significantly by approximately 99.0% to approximately HK\$30,000 (six months ended 30 September 2005: approximately HK\$3,115,000), principally due to substantial decrease in bank loans during the period under review.

Business Review

During the six months ended 30 September 2006, the Group was principally engaged in sourcing and export of cotton-based knitted garments for infants, children and women, and property investment.

Garment sourcing and export

During the period under review, garment sourcing and export continued to be the principal business of the Group and contributed approximately 93.4% (six months ended 30 September 2005: approximately 93.0%) to the Group's total turnover. Turnover from this segment diminished by approximately 1.2% to approximately HK\$240,695,000 as compared to approximately HK\$243,568,000 for the same period last year. This segment recorded a gain of approximately HK\$9,530,000, a turnaround as compared to the loss of approximately HK\$24,671,000 for the same period last year, largely due to the impairment loss on trade and other receivables of approximately HK\$33,302,000 recorded in 2005 but no such impairment loss was recorded during the period under review. The Group continued to alter its product mix to cater for the changes in customer needs. The product mix of infant wear and ladies wear changed from 40:39 for the six months ended 30 September 2005 to 37:47 for the parallel period this year.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Property investment

During the period under review, the property investment segment contributed approximately HK\$16,933,000 or 6.6% (six months ended 30 September 2005: approximately HK\$18,268,000 or 7.0%) to the Group's total turnover. Profit of this segment dropped approximately 89.0% to approximately HK\$18,607,000 (six months ended 30 September 2005: approximately HK\$168,993,000), mainly due to the reduction in gain on fair value changes of investment properties of approximately HK\$151,430,000. Rental income from investment properties, all of which are located in Hong Kong, increased to HK\$12,641,000 (six months ended 30 September 2005: approximately HK\$12,008,000). The average rental income of the Group increased nearly 5.3% during the period under review. As at 30 September 2006, the Group's commercial rental properties were 100% leased. Its industrial rental properties continued to maintain a high occupancy rate of approximately 96.0%. The building management fee income was approximately HK\$139,000 (six months ended 30 September 2005: approximately HK\$130,000).

The sale of residential units of Fa Yuen Plaza in Mongkok generated approximately HK\$4,153,000 cash inflow to the Group during the period under review (six months ended 30 September 2005: approximately HK\$6,130,000). As at 30 September 2006, approximately 90.6% of the available units were sold with the average selling price per square foot gross floor area increased from approximately HK\$3,900 for the six months ended 30 September 2005 to approximately HK\$3,940 for the same period this year.

During the period under review, the Group acquired the entire issued share capital of a company called Happy Light Investments Limited ("Happy Light"). Through the acquisition of Happy Light, the Group acquired 18 out of 20 units (the "Properties") in a building situated at Nos. 1 and 1A Victory Avenue and Nos. 3 and 3A Victory Avenue in Kowloon, Hong Kong (the "Building") for an aggregate consideration of approximately HK\$139,710,000. The Building is located at the prime commercial and residential location near Ho Man Tin and Mongkok, Kowloon, and its redevelopment potential looks promising. The Group intends to acquire the remaining 2 units and estimates that it will incur approximately HK\$170,000,000 in total for the acquisition of the whole Building for redevelopment. The acquisition of the Properties together with the remaining 2 units constitutes a major transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). It was approved by the shareholders of the Company at a special general meeting held on 19 July 2006. Details of this major transaction are set out in the Company's circular dated 3 July 2006.

As at 30 September 2006, the Group's entire property portfolio stood over HK\$761,817,000 (31 March 2006: approximately HK\$604,126,000).

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Geographical analysis of turnover

Geographically, the United States of America (the "US") remained to be the Group's major export market, from which approximately 86.4% of the Group's total turnover was generated (six months ended 30 September 2005: approximately 87.2%).

The Hong Kong, European and Mexican markets accounted for approximately 6.6%, 5.8% and 1.2% of the Group's total turnover respectively.

Prospects

Garment sourcing and export

Supported by the well-established and diverse customer base, the directors of the Company anticipate that the garment business of the Group will remain stable in the second half of the financial year ended 31 March 2007.

With industrial adjustment in structure and management in recent years, the development of textile industry in the PRC has made a significant headway. This has provided an excellent opportunity for the Group to participate in the phenomenal growth of the field. In efforts to broaden sales network and enlarge income base, extending the Group's geographic reach to other potential markets will be an important long-term strategy of the Group. Efforts will also be stepped up in product range expansion in order to meet boarder array of customers' needs.

Property investment

Property investment will become a key growth drive of the Group in the long run. An improving economy, rising income and increasing consumer confidence are expected to lead to increasing tenant demand for commercial and residential space, as well as rental growth in retail sector. Along with the expanded Individual Visit Scheme, growing popularity of major tourist attractions such as Ngong Ping 360, Ocean Park, Hong Kong Disneyland and Hong Kong Wetland Park will help boost tourism and retail trade. Visitor arrivals continue its growing momentum and retail sales rose an average of 6.4% in the first five months of 2006. Assisted by the buoyant outlook of the tourism and retail industry, rental income is thus expected to increase, in particular in prime areas such as Causeway Bay, Tsimshatsui and Mongkok where the Group's investment properties located.

Apart from the local property investment, the Group will also proactively seek for property investment opportunities outside Hong Kong, in particular in the PRC and Macau, when suitable opportunities arise. In view of the strong demand in the PRC property market as well as the lucrative gaming and tourism sectors in Macau, the two places have become a hot spot for property investment. The Group is optimistic towards the prospects of property development in these locations where favorable investment conditions exist.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Liquidity and Financial Resources

During the six months ended 30 September 2006, the Group financed its operations mainly by internally generated resources. The Group's total bank borrowings declined by approximately 83.2% to approximately HK\$642,000 at the period end date (31 March 2006: approximately HK\$3,819,000), which were all short-term borrowings. All the loans are secured and denominated in US dollars with prevailing market interest rates. The Group's borrowings are mostly event driven, with little seasonality. As at 30 September 2006, the shareholders' fund of the Group amounted to approximately HK\$1,132,147,000 (31 March 2006: approximately HK\$1,030,928,000). The Group's gearing ratio, which was calculated on the basis of the total borrowings to the shareholders' fund, decreased from approximately 0.0037 as at 31 March 2006 to approximately 0.0006 as at 30 September 2006.

The Group continued to sustain a good liquidity position. As at 30 September 2006, the Group had net current assets of approximately HK\$214,295,000 (31 March 2006: approximately HK\$281,721,000) and cash and cash equivalents of approximately HK\$138,116,000 (31 March 2006: approximately HK\$174,580,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and US dollars. As at 30 September 2006, the current ratio of the Group was approximately 4.19 (31 March 2006: approximately 4.78), which was calculated on the basis of current assets of approximately HK\$281,446,000 (31 March 2006: approximately HK\$356,172,000) to current liabilities of approximately HK\$67,151,000 (31 March 2006: approximately HK\$74,451,000). During the period under review, the Group serviced its debts primarily through internally generated resources.

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Capital Structure

On 8 March 2006, the Company announced that it proposed a rights issue of not less than 661,836,693 rights shares of HK\$0.10 each at a subscription price of HK\$0.12 per rights share on the basis of one rights share for every two shares held (the "First Rights Issue"). Upon completion of the First Rights Issue on 24 April 2006, the issued share capital of the Company was increased from HK\$132,367,338.60 to HK\$198,551,007.90 comprising 1,985,510,079 shares of HK\$0.10 each. Details of the First Rights Issue are set out in the Company's prospectus dated 3 April 2006.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Capital Structure *(Cont'd)*

On 30 August 2006, the Company announced that it proposed, amongst others, (i) the consolidation of every 10 issued and unissued shares of HK\$0.10 each into one share of HK\$1.00 each (the "Consolidated Share") (the "Share Consolidation"); (ii) the reduction of par value of each Consolidated Share in issue from HK\$1.00 each to HK\$0.01 each (the "Adjusted Share") by cancelling HK\$0.99 paid up capital on each Consolidated Share in issue, the subdivision of each unissued Consolidated Share of HK\$1.00 each into 100 new unissued Adjusted Shares of HK\$0.01 each and the transfer of the credit arising from the cancellation of paid up capital of HK\$196,565,496.93 to a capital reserve account of the Company (the "Capital Reduction"); and (iii) a rights issue of not less than 595,653,021 rights shares of HK\$0.01 each at a subscription price of HK\$0.35 per rights share on the basis of three rights shares for every Adjusted Share held (the "Second Rights Issue"). Details of the Share Consolidation, the Capital Reduction and the Second Rights Issue are set out in the Company's circular dated 22 September 2006.

The Group has no debt securities or other capital instruments as at 30 September 2006 and up to the date of this report.

Material Acquisitions and Disposals

Apart from the acquisition of Happy Light (as defined in "Business Review" above) in July 2006 for a consideration of HK\$53,680,000, the Group had no material acquisitions or disposal of subsidiaries or associates during the six months ended 30 September 2006.

Charges on Group Assets

As at 30 September 2006, certain investment properties of the Group with carrying amount of approximately HK\$131,000,000 (31 March 2006: certain leasehold properties and investment properties of the Group with carrying amounts of approximately HK\$9,116,000 and approximately HK\$588,000,000 respectively) were pledged to banks to secure the bank borrowings granted to the Group.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2006, the Group spent approximately HK\$1,715,000 (six months ended 30 September 2005: approximately HK\$599,000) on acquisition of property, plant and equipment.

As at 31 March 2006 and 30 September 2006, the Group had no significant capital commitments.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Contingent Liabilities

As at 30 September 2006, the outstanding amount of the Group's banking facilities utilised to the extent of approximately HK\$4,684,000 (31 March 2006: approximately HK\$8,333,000) were supported by the Company's corporate guarantees given to the bank.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 30 September 2006.

Significant Investment

As at 30 September 2006, the Group had significant investments in a portfolio of equity securities listed in Hong Kong, which comprised available-for-sale investments of approximately HK\$101,411,000 (31 March 2006: approximately HK\$93,987,000) and investments held for trading of approximately HK\$41,222,000 (31 March 2006: approximately HK\$3,600,000). All these investments were stated at fair value and their fair values were determined by reference to the bid prices quoted in active markets.

In respect of the listed securities performance for the period under review, the Group recorded a gain arising on change in fair value of investments of approximately HK\$789,000, a loss on disposal of investments held for trading of approximately HK\$615,000, a loss on disposal of available-for-sale investments of approximately HK\$15,134,000, and an impairment loss on available-for-sale investments of approximately HK\$14,147,000 (six months ended 30 September 2005: loss arising on change in fair value of investments of approximately HK\$151,070,000).

Save as disclosed above and the proposed acquisition of the whole Building (as defined in "Business Review" above) for redevelopment, the Group did not have any significant investment held or any significant investment plans 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 number of employees of the Group in Hong Kong and the US was about 60 and 16 respectively. Staff costs (including directors' emoluments) amounted to approximately HK\$13,054,000 for the period under review (six months ended 30 September 2005: approximately HK\$12,914,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up the Mandatory Provident Fund Scheme for the Hong Kong's employees and has made contributions to the pension scheme for the US staff. The Group also has a share option scheme to motivate valued employees.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2006, the interests and short positions of the directors and chief executives of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

A. Interests in the Company

1. Interests in issued shares of HK\$0.10 each (the "Shares")

Name of director	Capacity	Number of issued ordinary Shares held (long position)	Approximate percentage to issued ordinary Shares of the Company
Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	729,487,017	36.74

Note: These Shares were registered in the name of and were beneficially owned by Magical Profits Limited, which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse).

2. Interests in unissued shares of HK\$0.01 each (the "Adjusted Shares")

Name of director	Capacity	Number of unissued ordinary Adjusted Shares (long position)
Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	218,846,103

Note: These are the rights shares which Magical Profits Limited has undertaken to accept in respect of its pro rata entitlement under the issue by way of rights of 595,653,021 new Adjusted Shares (the "Rights Shares") at HK\$0.35 per Rights Share on the basis of three Rights Shares for every Adjusted Share held (the "Rights Issue"). Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Company and 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).

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

B. Interests in associated corporations

1. Easyknit Enterprises Holdings Limited ("Easyknit Enterprises")

Name of director	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of Easyknit Enterprises
Lui Yuk Chu (Note)	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 the Company. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Company and it 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).

2. Wellmake Investments Limited ("Wellmake") (Note a)

Name of director	Capacity	Number of non-voting deferred shares held (long position)	Percentage to issued non-voting deferred shares of Wellmake
Lui Yuk Chu	(Note b)	2	100

Notes:

- (a) All the issued ordinary shares in the share capital of Wellmake which carry voting rights were held by the Company.
- (b) One non-voting deferred share was held by Ms. Lui Yuk Chu as beneficial owner and the other one was held by her spouse, Mr. Koon Wing Yee.

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

Particulars of the share options, which were granted to the continuous contract employees of the Group under the Scheme, and their movements during the period under review were as follows:

Date of grant of share options	Number of share options (adjusted as appropriate)				Exercise price per share option HK\$ (Note b)	Exercise period of share options
	As at 1 April 2006	Adjustments*	Lapsed during the period	As at 30 September 2006		
2 March 2006 (Note a)	132,360,000 —	(132,360,000) 133,683,600	— (133,683,600)	— —	0.1418 0.1404*	2 March 2006 to 1 September 2006

Notes:

- (a) The share options have no vesting period and are exercisable from the date of grant.
- (b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

* The number of share options and the corresponding exercise price have been adjusted as a result of the rights issue of shares of the Company in April 2006.

No share options were granted, exercised or cancelled during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, the persons (other than the directors or chief executives of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

A. Interests in issued Shares

Name of substantial shareholder	Capacity	Number of issued ordinary Shares held (long position)	Approximate percentage to issued ordinary Shares of the Company
Koon Wing Yee (Note a)	Interest of spouse	729,487,017	36.74
Magical Profits Limited (Notes a & b)	Beneficial owner	729,487,017	36.74
Accumulate More Profits Limited (Notes a & b)	Interest of controlled corporation	729,487,017	36.74
Trustcorp Limited (Notes a & c)	Trustee	729,487,017	36.74
Newcorp Ltd. (Note c)	Interest of controlled corporation	729,487,017	36.74
Newcorp Holdings Limited (Note c)	Interest of controlled corporation	729,487,017	36.74
David Henry Christopher Hill (Note c)	Interest of controlled corporation	729,487,017	36.74
David William Roberts (Note c)	Interest of controlled corporation	729,487,017	36.74
Rebecca Ann Hill (Note c)	Interest of spouse	729,487,017	36.74

Notes:

- (a) The 729,487,017 Shares relate to the same block of Shares in the Company. These Shares were registered in the name of and were beneficially owned by Magical Profits Limited, which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu 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 729,487,017 Shares by virtue of the SFO.
- (b) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited and Accumulate More Profits Limited.
- (c) 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 729,487,017 Shares by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS (Cont'd)

B. Interests in unissued Adjusted Shares

Name of substantial shareholder	Capacity	Number of unissued ordinary Adjusted Shares (long position)
Koon Wing Yee (Note a)	Interest of spouse	218,846,103
Magical Profits Limited (Notes a & b)	Beneficial owner	218,846,103
Accumulate More Profits Limited (Notes a & b)	Interest of controlled corporation	218,846,103
Trustcorp Limited (Notes a & c)	Trustee	218,846,103
Newcorp Ltd. (Note c)	Interest of controlled corporation	218,846,103
Newcorp Holdings Limited (Note c)	Interest of controlled corporation	218,846,103
David Henry Christopher Hill (Note c)	Interest of controlled corporation	218,846,103
David William Roberts (Note c)	Interest of controlled corporation	218,846,103
Rebecca Ann Hill (Note c)	Interest of spouse	218,846,103
Get Nice Incorporated (Note d)	Interest of controlled corporation	376,806,918
Get Nice Holdings Limited (Note d)	Interest of controlled corporation	376,806,918
Honeylink Agents Limited (Note d)	Interest of controlled corporation	376,806,918
Cheer Union Securities Limited (Note e)	Beneficial owner	142,801,103

Notes:

- (a) These are the Rights Shares which Magical Profits Limited has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. 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). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interest in the 218,846,103 Rights Shares by virtue of the SFO.
- (b) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited and Accumulate More Profits Limited.
- (c) 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 218,846,103 Rights Shares by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS (Cont'd)

B. Interests in unissued Adjusted Shares (Cont'd)

- (d) These are the Rights Shares which Get Nice Investment Limited (the "Underwriter") has underwritten in respect of the Rights Issue. The Underwriter was wholly-owned by Get Nice Incorporated which in turn was wholly-owned by Get Nice Holdings Limited. Get Nice Holdings Limited was owned as to approximately 32.15% by Honeylink Agents Limited. Mr. Hung Hon Man is the beneficial owner of Honeylink Agents Limited.
- (e) These are the Rights Shares which Cheer Union Securities Limited has sub-underwritten in respect of the Rights Issue from the Underwriter.

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. Wong Sui Wah, Michael (Committee Chairman), Mr. Tsui Chun Kong and Mr. Jong Koon Sang. The Audit Committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters, including review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 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. Tsui Chun Kong (Committee Chairman), Mr. Wong Sui Wah, Michael and Mr. Jong Koon Sang.

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

Code provision A.4.1

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

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 section headed "Corporate Governance Practices" in the "Corporate Governance Report" contained in the Company's annual report for the financial year ended 31 March 2006.

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 International Holdings Limited
Tse Wing Chiu, Ricky
President and Chief Executive Officer

Hong Kong, 11 December 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. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang as independent non-executive directors.