



EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永 義 國 際 集 團 有 限 公 司

(Stock Code 股份代號: 1218)

2008

Interim Report 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 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	
	<i>NOTES</i>	30 September	
		2008	2007
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	216,887	282,563
Cost of sales		(174,028)	(230,025)
Gross profit		42,859	52,538
Other income		11,797	13,835
Distribution and selling expenses		(4,868)	(6,363)
Administrative expenses		(24,281)	(21,559)
Gain (loss) on disposal of available-for-sale investments		3,803	(6,182)
Gain on partial disposal of interests in associates	4	1,021	—
(Loss) gain on fair value changes of investments held for trading		(42,881)	22,365
(Loss) gain arising on change in fair value of investment properties		(16,850)	27,848
Loss on change in fair value of structured deposit		(461)	—
Impairment loss on available-for-sale investments		(22,699)	(19,450)
Share of results of associates		(4,883)	(4,652)
(Loss) profit before taxation	5	(57,443)	58,380
Taxation credit	6	8,157	2,107
(Loss) profit for the period attributable to equity holders of the Company		(49,286)	60,487
Basic (loss) earnings per share	7	HK cents (6.2)	HK cents 7.6

**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	9	16,022	16,428
Properties held for development	10	33,766	—
Investment properties	11	549,830	566,680
Intangible asset		921	921
Interests in associates		91,685	94,438
Available-for-sale investments		43,355	79,812
Loans receivable		—	83
Deposits paid for acquisition of properties held for development	10	19,310	—
		754,889	758,362
Current assets			
Properties held for development	10	179,052	178,587
Properties held for sale		—	1,822
Investments held for trading		113,655	139,033
Inventories		2,210	2,942
Trade and other receivables	12	40,116	32,143
Loans receivable		119,980	134,000
Bills receivable	13	26,717	30,826
Tax recoverable		—	368
Structured deposit	14	22,939	—
Bank deposit with original maturity over three months		10,867	—
Bank balances and cash		226,807	281,315
		742,343	801,036
Current liabilities			
Trade and other payables	15	35,933	40,482
Bills payable	13	7,449	3,566
Tax payable		22,871	23,978
		66,253	68,026
Net current assets			
		676,090	733,010
		1,430,979	1,491,372
Capital and reserves			
Share capital	16	7,942	7,942
Reserves		1,409,385	1,461,587
		1,417,327	1,469,529
Non-current liabilities			
Deferred taxation	17	13,652	21,843
		1,430,979	1,491,372

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

Attributable to equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Investment revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2008 (audited)	7,942	218,330	196,565	6,364	9,800	220,937	4,026	2,521	803,044	1,469,529
Change in fair value of available-for-sale investments	—	—	—	—	—	—	(22,922)	—	—	(22,922)
Exchange difference on translation of foreign operations	—	—	—	1	—	—	—	—	—	1
Share of translation reserve of associates	—	—	—	1,109	—	—	—	—	—	1,109
Net income (expenses) recognised directly in equity	—	—	—	1,110	—	—	(22,922)	—	—	(21,812)
Released on disposal of available-for-sale investments	—	—	—	—	—	—	(3,803)	—	—	(3,803)
Impairment loss on available-for-sale investments	—	—	—	—	—	—	22,699	—	—	22,699
Loss for the period	—	—	—	—	—	—	—	—	(49,286)	(49,286)
Total recognised income and expenses for the period	—	—	—	1,110	—	—	(4,026)	—	(49,286)	(52,202)
At 30 September 2008 (unaudited)	7,942	218,330	196,565	7,474	9,800	220,937	—	2,521	753,758	1,417,327
At 1 April 2007 (audited)	7,942	218,330	196,565	2,565	9,800	220,937	(28,190)	2,521	738,708	1,369,178
Change in fair value of available-for-sale investments	—	—	—	—	—	—	47,461	—	—	47,461
Exchange difference on translation of foreign operations	—	—	—	(236)	—	—	—	—	—	(236)
Share of translation reserve of associates	—	—	—	1,063	—	—	—	—	—	1,063
Net income recognised directly in equity	—	—	—	827	—	—	47,461	—	—	48,288
Released on disposal of available-for-sale investments	—	—	—	—	—	—	6,182	—	—	6,182
Impairment loss on available-for-sale investments	—	—	—	—	—	—	19,450	—	—	19,450
Profit for the period	—	—	—	—	—	—	—	—	60,487	60,487
Total recognised income and expenses for the period	—	—	—	827	—	—	73,093	—	60,487	134,407
At 30 September 2007 (unaudited)	7,942	218,330	196,565	3,392	9,800	220,937	44,903	2,521	799,195	1,503,585

**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 from operating activities	8,062	68,764
Net cash (used in) from investing activities		
Proceeds on disposal of available-for-sale investments	13,535	33,615
Acquisition of properties held for development - non-current	(33,766)	—
Purchase of structured deposit	(23,400)	—
Deposits paid for acquisition of properties held for development - non-current	(19,310)	—
Increase in bank deposit with original maturity over three months	(10,867)	—
Net proceeds on disposal of investment properties	—	92,418
Other investing activities	11,238	11,958
	(62,570)	137,991
Net (decrease) increase in cash and cash equivalents	(54,508)	206,755
Cash and cash equivalents at beginning of the period	281,315	343,353
Cash and cash equivalents at end of the period, represented by bank balances and cash	226,807	550,108

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

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 (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

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, except for the accounting policy set out below which is applicable to the Group for the current financial period for the first time:

Financial assets at fair value through profit or loss ("FVTPL")

The Group designated structured deposit as financial assets at FVTPL upon initial recognition as the structured deposit contains embedded derivative, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest earned on the financial assets.

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 on 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 adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result on a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results or financial position of the Group.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into five main operating divisions - garment sourcing and exporting, property investments, property development, investment in securities and loan financing. These divisions are the bases on which the Group reports its segment information.

For the six months ended 30 September 2008

	Garment sourcing and exporting	Property investments	Property development	Investment in securities	Loan financing	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover							
External	200,927	13,772	2,188	—	—	—	216,887
Inter-segment	—	1,509	—	—	—	(1,509)	—
	<u>200,927</u>	<u>15,281</u>	<u>2,188</u>	<u>—</u>	<u>—</u>	<u>(1,509)</u>	<u>216,887</u>
Result							
Segment result	<u>6,576</u>	<u>(3,553)</u>	<u>345</u>	<u>(56,968)</u>	<u>3,288</u>	<u>(1,607)</u>	<u>(51,919)</u>
Unallocated corporate income							2,736
Unallocated corporate expenses							(4,398)
Gain on partial disposal of interests in associates							1,021
Share of results of associates							(4,883)
Loss before taxation							(57,443)
Taxation credit							8,157
Loss for the period							<u>(49,286)</u>

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

3. SEGMENT INFORMATION (Cont'd)

For the six months ended 30 September 2007

	Garment sourcing and exporting HK\$'000	Property investments HK\$'000	Property development HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover							
External	264,719	13,964	3,880	—	—	—	282,563
Inter-segment	—	1,329	—	—	—	(1,329)	—
	<u>264,719</u>	<u>15,293</u>	<u>3,880</u>	<u>—</u>	<u>—</u>	<u>(1,329)</u>	<u>282,563</u>
Result							
Segment result	<u>15,283</u>	<u>41,353</u>	<u>46</u>	<u>(1,044)</u>	<u>1,848</u>	<u>(1,516)</u>	<u>55,970</u>
Unallocated corporate income							8,315
Unallocated corporate expenses							(1,253)
Share of results of associates							(4,652)
Profit before taxation							58,380
Taxation credit							2,107
Profit for the period							<u>60,487</u>

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

4. GAIN ON PARTIAL DISPOSAL OF INTERESTS IN ASSOCIATES

During the current period, the holder of the convertible note issued by Easykmit Enterprises Holdings Limited ("Easykmit Enterprises"), an associate of the Group, exercised his conversion right and converted the whole amount of the convertible note at its par value of HK\$37,650,000 into 784,375,000 new ordinary shares of Easykmit Enterprises at a conversion price of HK\$0.048 per conversion share. The Group's interest in Easykmit Enterprises was diluted from approximately 35.93% to 31.70% and the gain on partial disposal of interests in associates amounting to HK\$1,021,000 has been recognised in the condensed consolidated income statement for the six months ended 30 September 2008. Shares of Easykmit Enterprises are also listed on the Stock Exchange.

5. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	547	578
Net exchange loss (included in administrative expenses)	2,749	—
and after crediting:		
Dividend income from listed investments	5,270	2,224
Interest income	6,109	9,282
Net exchange gain (included in other income)	—	1,983
	—————	—————

6. TAXATION

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
The credit comprises:		
Hong Kong Profits Tax		
Current period	34	2,991
Underprovision in prior periods	—	16
	—————	—————
	34	3,007
Deferred taxation (note 17)		
Credit for the period	(6,943)	(5,114)
Attributable to a change in tax rate	(1,248)	—
	—————	—————
	(8,191)	(5,114)
Tax credit attributable to the Company and its subsidiaries	—————	—————
	(8,157)	(2,107)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current and deferred taxation for the six months ended 30 September 2008.

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 September 2007: 17.5%) of the estimated assessable profit for the period.

7. BASIC (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
(Loss) earnings for the purposes of calculating basic (loss) earnings per share	(49,286)	60,487
	<u><u> </u></u>	<u><u> </u></u>
	2008	2007

Number of shares

Number of shares for the purposes of calculating basic (loss) earnings per share	794,204,028	794,204,028
	<u><u> </u></u>	<u><u> </u></u>

No diluted (loss) earnings per share is presented as the Company has no potential ordinary shares outstanding during both periods.

8. DIVIDEND

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

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$141,000 (six months ended 30 September 2007: HK\$123,000) on acquisition of property, plant and equipment.

10. PROPERTIES HELD FOR DEVELOPMENT/DEPOSITS PAID FOR ACQUISITION OF PROPERTIES HELD FOR DEVELOPMENT

	30 September 2008 HK\$'000	31 March 2008 HK\$'000
Carrying amount of properties held for development shown in the condensed consolidated balance sheet as:		
Non-current assets	33,766	—
Current assets	179,052	178,587
	<u>212,818</u>	<u>178,587</u>

During the current period, the Group entered into a sale and purchase agreement with a vendor to acquire the entire issued share capital of Trump Elegant Investment Limited (“Trump Elegant”) for a total consideration of HK\$8,300,000. This acquisition has been accounted for as a purchase of assets rather than business combination as Trump Elegant is not a business. Except for deposits paid for acquisition of properties, other assets and liabilities acquired from Trump Elegant were insignificant. The acquisition of Trump Elegant enabled the Group to acquire 11 out of the 12 units in a building situated at Prince Edward Road West, Kowloon, Hong Kong (the “Prince Edward Road Building”). Trump Elegant, after becoming a wholly owned subsidiary of the Company, completed the acquisition of 2 out of the 12 units of the Prince Edward Road Building at a total consideration of HK\$25,466,000 (including direct costs) during the six months ended 30 September 2008.

At 30 September 2008, the Group also paid deposits of HK\$19,310,000 to several vendors for the acquisition of 9 out of the 12 units for the Prince Edward Road Building.

Due to the uncertainty on the timing of successful acquisition of the remaining unit of the Prince Edward Road Building for development purpose within the Group’s normal operating cycle, properties held for development of HK\$33,766,000 and deposits paid for acquisition of properties held for development of HK\$19,310,000 were not included in the Group’s current assets in the condensed consolidated balance sheet at 30 September 2008.

During the year ended 31 March 2008, the Group completed the acquisition of all units of a building situated at Victory Avenue, Kowloon, Hong Kong (the “Victory Avenue Building”) and the development project has been commenced. At 30 September 2008, the properties held for development in relation to the Victory Avenue Building amounting to HK\$179,052,000 (31 March 2008: HK\$178,587,000) was included in the Group’s current assets in the condensed consolidated balance sheet as it is expected that the properties will be realised in the Group’s normal operating cycle for properties development, which is expected to be more than twelve months after the balance sheet date.

11. INVESTMENT PROPERTIES

During the six months ended 30 September 2007, the Group disposed of an investment property with a carrying value of HK\$92,800,000 (six months ended 30 September 2008: nil).

The Group's investment properties are held for rental purposes under operating leases. They were valued by Knight Frank Petty Limited, a firm of independent professional valuers, at 30 September 2008. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The loss arising on change in fair value of the investment properties of HK\$16,850,000 has been recognised in the condensed consolidated income statement for the six months ended 30 September 2008 (six months ended 30 September 2007: gain arising on change in fair value of HK\$27,848,000).

12. TRADE AND OTHER RECEIVABLES

	30 September 2008 HK\$'000	31 March 2008 HK\$'000
Trade receivables	17,191	16,480
Less: Allowance for doubtful debts	(790)	(790)
	16,401	15,690
Deposits to suppliers	19,742	13,034
Other receivables	3,973	3,419
	40,116	32,143

The Group allows credit period up to 90 days to its trade customers. The aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date is as follows:

	30 September 2008 HK\$'000	31 March 2008 HK\$'000
0 - 60 days	15,876	15,404
61 - 90 days	153	224
Over 90 days	372	62
	16,401	15,690

13. BILLS RECEIVABLE/BILLS PAYABLE

The bills receivable and bills payable of the Group are aged within 90 days at the balance sheet date.

14. STRUCTURED DEPOSIT

During the current period, the Group placed a structured deposit with a financial institution in Hong Kong. The structured deposit contains embedded derivative, the return of which is determined with reference to the change in exchange rate between Renminbi ("RMB") and United States dollars ("US\$") quoted in the market.

Major terms of the structured deposit at 30 September 2008 are as follows:

Principal amount	Maturity	Annual coupon rate
US\$3,000,000	2 July 2009	0% to 10% (note)

Note: The annual coupon rate is dependent on whether the spot rate for conversion of US\$ for RMB as prevailing in the international foreign exchange market falls within ranges as specified in the agreement during the period from the inception date to the maturity date of the agreement.

At 30 September 2008, the structured deposit is stated at fair value based on valuation provided by the counterparty financial institution for equivalent instruments. The fair value is calculated using discounted cash flow analyses based on the applicable yield curve of interest rate.

15. 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	11,097	23,687
61 - 90 days	—	12
Over 90 days	4	5
	<u>11,101</u>	<u>23,704</u>

16. SHARE CAPITAL

	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:			
At 1 April 2007, 31 March 2008 and 30 September 2008	0.01	<u>100,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:			
At 1 April 2007, 31 March 2008 and 30 September 2008	0.01	<u>794,204,028</u>	<u>7,942</u>

17. 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 2007	324	45,697	(17,788)	28,233
(Credit) charge to the condensed consolidated income statement	<u>(166)</u>	<u>(10,768)</u>	<u>5,820</u>	<u>(5,114)</u>
At 30 September 2007	158	34,929	(11,968)	23,119
Charge (credit) to the condensed consolidated income statement	<u>98</u>	<u>2,163</u>	<u>(3,537)</u>	<u>(1,276)</u>
At 31 March 2008	256	37,092	(15,505)	21,843
Effect of change in tax rate	(15)	(2,119)	886	(1,248)
Charge (credit) to the condensed consolidated income statement	<u>18</u>	<u>(1,744)</u>	<u>(5,217)</u>	<u>(6,943)</u>
At 30 September 2008	<u><u>259</u></u>	<u><u>33,229</u></u>	<u><u>(19,836)</u></u>	<u><u>13,652</u></u>

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

At 30 September 2008, the Group has unused tax losses of HK\$217,083,000 (31 March 2008: HK\$189,918,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$120,213,000 (31 March 2008: HK\$88,598,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$96,870,000 (31 March 2008: HK\$101,320,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except for losses of HK\$52,453,000 (31 March 2008: HK\$52,453,000) which will expire as follows:

	30 September 2008 <i>HK\$'000</i>	31 March 2008 <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
2027	9,022	9,022
2028	<u>7,300</u>	<u>7,300</u>
	<u>52,453</u>	<u>52,453</u>

18. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the period, the Group had the following transactions with related parties/persons deemed to be “connected persons” pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange, being entities controlled by certain relatives of Ms. Lui Yuk Chu, a director of the Company, and her spouse, Mr. Koon Wing Yee:

	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Rental income	193	315
Commission income	—	54
	=====	=====

- (b) During the six months ended 30 September 2008, the Group provided administrative services to Easyknit Enterprises and received service income of HK\$120,000 (six months ended 30 September 2007: HK\$120,000) from that company. Easyknit Enterprises is an associate of the Group and a company in which Ms. Lui Yuk Chu, a director of the Company, and her spouse, Mr. Koon Wing Yee, have beneficial interests.

In addition, during the six months ended 30 September 2007, the Group also disposed of a motor vehicle to a subsidiary of Easyknit Enterprises at a consideration of HK\$576,000 (six months ended 30 September 2008: nil).

- (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the period amounted to HK\$3,011,000 (six months ended 30 September 2007: HK\$2,784,000).

19. CAPITAL COMMITMENTS

At 30 September 2008, the Group's capital expenditures contracted for but not provided in the condensed consolidated balance sheet in respect of acquisition of 9 units of the Prince Edward Road Building for development purpose amounted to HK\$68,890,000 (31 March 2008: nil).

20. POST BALANCE SHEET EVENTS

- (a) As announced by the Company on 12 November 2008, Easyknit Enterprises, the Group's associate, proposed also on 12 November 2008 to raise approximately HK\$100 million before expenses by way of a rights issue of 667,499,000 rights shares at a subscription price of HK\$0.15 per rights share. The Group has conditionally undertaken to Easyknit Enterprises and the underwriter of the rights issue that, among others, the rights shares to be allotted to the Group will be taken up in full, subject to the approval of the Company's shareholders at a special general meeting to be held on 19 December 2008, which has subsequently been delayed to 24 December 2008. The subscription cost will amount to approximately HK\$31.7 million based on the Group's shareholding in Easyknit Enterprises as at the date of this report. The Group will not apply for any excess rights shares.
- (b) The Group disposed of certain equity securities listed in Hong Kong, which were classified as investments held for trading, with carrying value of HK\$4,570,000 as at 30 September 2008 for a cash consideration of HK\$4,310,000 before expenses.

INTERIM DIVIDEND

The board of directors 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

For the six months ended 30 September 2008, the Group recorded a turnover of approximately HK\$216,887,000, representing a decrease of approximately 23.2% as compared to approximately HK\$282,563,000 for the same period last year. Gross profit was down about 18.4% to approximately HK\$42,859,000 from approximately HK\$52,538,000 for the corresponding period last year. Gross profit margin slightly increased from 18.6% to 19.8%.

Loss attributable to shareholders was approximately HK\$49,286,000 as compared to profit attributable to shareholders of approximately HK\$60,487,000 for the same period last year. Such loss was largely attributable to (i) a decrease in sales of the garment sourcing and exporting business by approximately 24.1% as compared with the corresponding period last year, (ii) the loss on fair value changes of investments held for trading of approximately HK\$42,881,000, (iii) the loss arising on change in fair value of investment properties of approximately HK\$16,850,000, and (iv) the impairment loss on available-for-sale investments of approximately HK\$22,699,000. Basic loss per share was approximately HK cents 6.2 (six months ended 30 September 2007: basic earnings per share was approximately HK cents 7.6).

Cost of sales dropped by approximately 24.3% to approximately HK\$174,028,000, from approximately HK\$230,025,000 for the corresponding period last year. The total operating expenses increased by approximately 4.4% to approximately HK\$29,149,000 (six months ended 30 September 2007: approximately HK\$27,922,000).

For the period under review, no finance cost was recorded for the six months ended 30 September 2008 as no bank borrowings had been made by the Group.

Business Review

During the six months ended 30 September 2008, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women, property investment and development.

Garment Sourcing and Exporting

During the period under review, the turnover for the Group's major business in garment sourcing and exporting reached approximately HK\$200,927,000 (six months ended 30 September 2007: approximately HK\$264,719,000), representing a decrease of approximately 24.1% for the same period last year. It constituted an approximately 92.6% of the Group's total turnover (six months ended 30 September 2007: approximately 93.7%). As a result of slowdown in the economy of the United States of America (the "US"), the major market of the Group, profit gained from this segment reduced by approximately 57.0% to approximately HK\$6,576,000 as compared to approximately HK\$15,283,000 for the same period last year. The product mix of infants wear and ladies wear changed from 35:46 for the six months ended 30 September 2007 to 42:39 for the corresponding period this year.

Property Investment and Development

During the period under review, the property investment and development segments contributed approximately HK\$15,960,000 or 7.4% (six months ended 30 September 2007: approximately HK\$17,844,000 or 6.3%) to the Group's total turnover. A loss of approximately HK\$3,208,000 of these segments were recorded (six months ended 30 September 2007: profit of approximately HK\$41,399,000) due to the loss on change in fair value of investment properties of approximately HK\$16,850,000. Rental income from properties which are all located in Hong Kong decreased approximately 1.4% to approximately HK\$13,626,000 (six months ended 30 September 2007: approximately HK\$13,818,000). As at 30 September 2008, the Group's commercial rental properties were 100% leased. Its industrial rental properties continued to maintain a high occupancy rate of approximately 98.0%. The building management fee income was approximately HK\$146,000 (six months ended 30 September 2007: approximately HK\$146,000).

The Group entered into a sale and purchase agreement dated 24 June 2008 with a vendor to acquire the entire issued share capital of Trump Elegant Investment Limited ("Trump Elegant") for a total consideration of HK\$8,300,000. The acquisition of Trump Elegant enabled the Group to acquire 11 out of the 12 units in the building situated on Section B of Kowloon Inland Lot No. 1685 (Nos. 313, 313A, 313B & 313C Prince Edward Road West, Kowloon, Hong Kong) ("Prince Edward Road Building"). The Group intends to acquire the remaining one unit of the building so as to be the owner of the whole building, which it at present contemplates redeveloping if and when the directors consider market sentiment to be appropriate. This acquisition has enabled the Group to expand its property investment portfolio and provide the Group with further potential income from property development.

Geographical Analysis of Turnover

The US continued to be the major export market and contributed 84.5% to the Group's total turnover (six months ended 30 September 2007: approximately 86.3%). Besides the US, the Hong Kong, European, Mexican and China markets, contributed 7.4%, 4.5%, 3.5% and 0.1% respectively to the Group's total turnover.

Prospects

Garment Sourcing and Exporting

Garment export is expected to continue declining as global economic slowdown triggered off by the US-led financial turmoil eroded demand for exports and weakened consumer confidence.

The lingering financial market turbulence will further pose a drag on the garment sourcing and export industry in near term. The slack in demand from US, which is the Group's major market, and the shrinking number of orders from Europe are envisaged to slash the Group's sales growth.

The directors of the Company recognise the challenges ahead but remain cautiously hopeful of the garment export business given the competitiveness of Hong Kong in garment sourcing. Apart from broadening the sales network and strengthening business relationship with current clientele, the Group will execute flexible pricing strategy, tactfully negotiate new contracts and exercise better cost-control to maintain profit margin.

Property Investment and Development

Local property market will remain in consolidation course under the influence of the unfolding economic downturn as a "wait-and-see" attitude prevails among investors and entrepreneurs while the tightened credit controls had largely limited market activity.

Industrial and commercial properties could receive fair support from constant user demand though their capital values are set to dip along with downside for rents and prices. Properties with re-development potential will continue to be the Group's major investment outlets.

With lean space availability and competitive edge as a gateway to China, the Group held cautious optimism over Hong Kong's property market. The average rents in prime areas are still at high rates. The Group will proactively seek rewarding property investment opportunities so as to maximize the shareholders' return.

Liquidity and Financial Resources

During the six months ended 30 September 2008, the Group financed its operations mainly by internally generated resources. As the Group had no bank borrowings as at 30 September 2008 (31 March 2008: nil), no gearing ratio of the Group was presented.

The Group continued to sustain a good liquidity position. As at 30 September 2008, the Group had net current assets of approximately HK\$676,090,000 (31 March 2008: approximately HK\$733,010,000) and cash and cash equivalents of approximately HK\$226,807,000 (31 March 2008: approximately HK\$281,315,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and US dollars. As at 30 September 2008, the current ratio of the Group was approximately 11.2 (31 March 2008: approximately 11.8), which was calculated on the basis of current assets of approximately HK\$742,343,000 (31 March 2008: approximately HK\$801,036,000) to current liabilities of approximately HK\$66,253,000 (31 March 2008: approximately HK\$68,026,000). 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. The directors will remain cautious in the Group's liquidity management.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Capital Structure

The Group has no debt securities or other capital instruments as at 30 September 2008 and up to the date of this report.

Material Acquisitions and Disposals

As announced on 27 June 2008, Easyknit Properties Holdings Limited ("Easyknit Properties"), a wholly-owned subsidiary of the Company, had entered into an agreement on 24 June 2008 to acquire the entire issued share capital of Trump Elegant, for a total consideration of HK\$8,300,000 in cash upon completion. Under the agreement, Easyknit Properties had also agreed to advance a loan to Trump Elegant up to an aggregate amount not exceeding HK\$32,000,000. The loan was personally guaranteed by the seller, Mr. Ng Kwai Tung, an individual who is an independent third party of the Company and its connected persons (as defined in the Listing Rules). Completion had taken place on 1 September 2008.

Save as disclosed above and in note 4 of the condensed consolidated financial statements, the Group had no material acquisitions or disposal of subsidiaries or associates during the six months ended 30 September 2008.

Charges on Group Assets

As at 30 September 2008, certain investment properties of the Group with carrying amount of approximately HK\$133,000,000 (31 March 2008: approximately HK\$138,500,000) were pledged to banks to secure the banking facilities granted to the Group.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2008, the Group spent approximately HK\$141,000 (six months ended 30 September 2007: approximately HK\$123,000) on acquisition of property, plant and equipment.

At 30 September 2008, the Group's capital expenditures contracted for but not provided in the condensed consolidated balance sheet in respect of acquisition of 9 units of the Prince Edward Road Building for development purpose amounted to HK\$68,890,000 (31 March 2008: nil).

Contingent Liabilities

As at 30 September 2008, the outstanding amount of the Group's banking facilities utilised to the extent of approximately HK\$7,449,000 (31 March 2008: approximately HK\$3,566,000) 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 2008.

Significant Investment

As at 30 September 2008, the Group had significant investments in a portfolio of equity securities listed in Hong Kong, which comprised available-for-sale investments of approximately HK\$43,355,000 (31 March 2008: approximately HK\$79,812,000) and investments held for trading of approximately HK\$113,655,000 (31 March 2008: approximately HK\$139,033,000). 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 loss of approximately HK\$42,881,000 on fair value changes of investments held for trading (six months ended 30 September 2007: gain of approximately HK\$22,365,000). Impairment loss on available-for-sale investments went up to approximately HK\$22,699,000 (six months ended 30 September 2007: HK\$19,450,000). During the period, the Group recognised a gain on disposal of available-for-sale investments of approximately HK\$3,803,000 (six months ended 30 September 2007: loss of approximately HK\$6,182,000).

On 16 April 2008, the Group acquired on the Stock Exchange 12,000,000 shares of Sino Union Petroleum & Chemical International Limited at a total consideration of HK\$21,573,600 (exclusive of transaction costs).

The Group disposed on the market of 1,600,000 and 607,000 China CITIC Bank Corporation Limited H shares on 11 June 2008 and 16 June 2008 respectively at the aggregate gross sale proceeds of HK\$10,892,720. On 18 June 2008, the Group disposed of 2,298,000 Industrial and Commercial Bank of China Limited H shares on the market at the aggregate gross proceeds of HK\$12,706,880.

Save as disclosed above and the acquisition of Trump Elegant as mentioned in the section of "Material Acquisitions and Disposals", the Group did not have any significant investment held or any significant investment plans as at 30 September 2008.

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.

Subsequent Events

As announced by the Company and Easyknit Enterprises Holdings Limited ("Easyknit Enterprises"), an associate of the Company, on 12 November 2008, Easyknit Enterprises proposed to raise approximately HK\$100 million before expenses by way of rights issue of 667,499,000 rights shares at a subscription price of HK\$0.15 per rights shares on the basis of ten rights shares for every share held (the "Rights Issue"). As at the date of this report, the Company, through Landmark Profits Limited ("Landmark Profits"), a wholly-owned subsidiary of the Company, is interested in 21,162,787 shares of Easyknit Enterprises, representing approximately 31.70% of the total issued share capital of Easyknit Enterprises. Landmark Profits has irrevocably undertaken to Easyknit Enterprises and the underwriter of the Rights Issue that, among others, the rights shares (representing 211,627,870 rights shares) to be allotted will be taken up in full, subject to the approval of the shareholders of the Company at the special general meeting to be held on 24 December 2008. The subscription cost will amount to approximately HK\$31.7 million. Landmark Profits will not apply for any excess rights shares. Details of the Rights Issue were set out in the Company's announcements dated 12 November 2008 and 3 December 2008 and the circular dated 8 December 2008.

On 9 December 2008, the Group disposed of 1,000,000 Industrial and Commercial Bank of China Limited H shares on the market at the aggregate gross proceeds of HK\$4,310,000. As a result of the disposal, the Company recognise a gain of approximately HK\$90,000 calculated on the basis of the difference between the acquisition price and the disposal price (exclusive of transaction cost).

Employment and Remuneration Policy

As at 30 September 2008, the number of employees of the Group in Hong Kong and the US was about 60 and 10 respectively. Staff costs (including directors' emoluments) amounted to approximately HK\$13,936,000 for the period under review (six months ended 30 September 2007: approximately HK\$14,465,000). 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 2008, the interests and short positions of the directors and chief executives of the Company 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

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	291,794,804	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 Hang Seng Bank Trustee International 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	21,162,787	31.70%

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 Hang Seng Bank Trustee International 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 2008, none of the directors or chief executives of the Company 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 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. No share options were granted, exercised or cancelled under the Scheme during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, the persons (other than the directors or chief executives of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of issued ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Koon Wing Yee (Note a)	Interest of spouse	291,794,804	36.74%
Magical Profits Limited (Notes a & b)	Beneficial owner	291,794,804	36.74%
Accumulate More Profits Limited (Note a)	Interest of controlled corporation	291,794,804	36.74%
Hang Seng Bank Trustee International Limited (Notes a & c)	Trustee	291,794,804	36.74%
Hang Seng Bank Limited (Note c)	Interest of controlled corporation	291,794,804	36.74%
The Hongkong and Shanghai Banking Corporation Limited (Notes c & d)	Interest of controlled corporation	291,794,809	36.74%
HSBC Asia Holdings BV (Note d)	Interest of controlled corporation	291,794,809	36.74%
HSBC Asia Holdings (UK) (Note d)	Interest of controlled corporation	291,794,809	36.74%

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Name of substantial shareholder	Capacity	Number of issued ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
HSBC Holdings BV (Note d)	Interest of controlled corporation	291,794,809	36.74%
HSBC Finance (Netherlands) (Note d)	Interest of controlled corporation	291,794,809	36.74%
HSBC Holdings plc (Note d)	Interest of controlled corporation	291,794,809	36.74%

Notes:

- (a) The 291,794,804 shares relate to the same block of shares. These shares were registered in the name of and were beneficially owned by Magical Profits Limited, which was a wholly-owned subsidiary of 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). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu was deemed to be interested in the 291,794,804 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.
- (c) 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.
- (d) The 291,794,809 shares relate to the same block of shares. Out of the 291,794,809 shares, 291,794,804 shares were registered in the name of and were beneficially owned by Magical Profits Limited. The remaining 5 shares were held by HSBC Broking Securities (Asia) Limited, which was a wholly-owned subsidiary of HSBC Broking Services (Asia) Limited which in turn was wholly-owned 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 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 2008.

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. Tsui Chun Kong (Committee Chairman), Mr. Jong Koon Sang and Mr. Hon Tam Chun. 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 2008.

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. Jong Koon Sang (Committee Chairman), Mr. Tsui Chun Kong and Mr. Hon Tam Chun. The Remuneration Committee reviews and 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.

EXECUTIVE COMMITTEE

The Company has established an Executive Committee with written terms of reference. 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 performance of management.

CORPORATE GOVERNANCE

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 Appendix 14 to the Listing Rules except for the following deviations:

Code provision A.2.1

Mr. Kwong Jimmy Cheung Tim 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 2008.

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 2008.

By order of the board of
Easyknit International Holdings Limited
Kwong Jimmy Cheung Tim
President and Chief Executive Officer

Hong Kong, 10 December 2008

As at the date of this report, the board of the Company 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. Tsui Chun Kong, Mr. Jong Koon Sang and Hon Tam Chun as independent non-executive directors.