



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司

(Stock Code 股份代號 : 0616)

2009
Interim Report
中期業績報告

The board of directors (the "Board") of Easyknit Enterprises Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2009 together with comparative figures. These interim financial statements have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

		Six months ended	
		30 September	
	<i>NOTES</i>	2009	2008
		HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Turnover	3	15,345	23,875
Cost of sales and services		(17,778)	(25,769)
Gross loss		(2,433)	(1,894)
Other income		612	1,143
Distribution costs		(133)	(301)
Administrative expenses		(8,773)	(7,614)
Other expenses		(143)	(1,236)
Write back of allowance for (allowance for) doubtful debts		57	(4,232)
Gain arising on fair value change of investment properties		301	—
Gain arising from fair value change of investments held for trading		643	—
Impairment loss recognised in respect of property, plant and equipment	7	(5,338)	—
Finance costs		—	(475)
Loss before taxation	4	(15,207)	(14,609)
Taxation	5	(760)	(796)
Loss for the period		(15,967)	(15,405)
Exchange differences arising on translation of foreign operations		—	3,501
Total comprehensive income for the period		(15,967)	(11,904)
Basic loss per share	6	HK cents (19.7)	HK cents (166)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2009**

	NOTES	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	98,720	106,999
Investment properties	8	96,000	—
Prepaid lease payments	9	40,480	40,921
Deposits for acquisition of property, plant and equipment		38	38
		<u>235,238</u>	<u>147,958</u>
Current assets			
Inventories		3,740	6,008
Trade and other receivables	10	59,790	64,346
Prepaid lease payments	9	881	881
Investments held for trading		—	4,056
Pledged bank deposits		10,000	10,000
Bank balances and cash		51,148	154,870
		<u>125,559</u>	<u>240,161</u>
Current liabilities			
Trade and other payables	11	13,355	23,732
Bills payable	12	—	1,739
Tax payable		6,612	6,068
		<u>19,967</u>	<u>31,539</u>
Net current assets		<u>105,592</u>	<u>208,622</u>
		<u>340,830</u>	<u>356,580</u>
Capital and reserves			
Share capital	13	7,342	7,342
Reserves		333,271	349,238
		<u>340,613</u>	<u>356,580</u>
Non-current liabilities			
Deferred taxation	14	217	—
		<u>340,830</u>	<u>356,580</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Share capital HK\$'000	Share premium HK\$'000	Convertible note equity reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2009 (audited)	7,342	369,309	—	53,194	714	21,178	(95,157)	356,580
Loss for the period and total recognised expense for the period	—	—	—	—	—	—	(15,967)	(15,967)
At 30 September 2009 (unaudited)	<u>7,342</u>	<u>369,309</u>	<u>—</u>	<u>53,194</u>	<u>714</u>	<u>21,178</u>	<u>(111,124)</u>	<u>340,613</u>
At 1 April 2008 (audited)	58,906	246,094	4,128	53,194	714	17,711	(113,782)	266,965
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	—	3,501	—	3,501
Loss for the period	—	—	—	—	—	—	(15,405)	(15,405)
Total recognised income and expense for the period	—	—	—	—	—	3,501	(15,405)	(11,904)
On conversion of convertible note	7,843	30,449	(4,128)	—	—	—	—	34,164
Reduction of capital upon capital reorganisation (see note 13(c))	(66,082)	—	—	—	—	—	66,082	—
At 30 September 2008 (unaudited)	<u>667</u>	<u>276,543</u>	<u>—</u>	<u>53,194</u>	<u>714</u>	<u>21,212</u>	<u>(63,105)</u>	<u>289,225</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(7,149)	(15,106)
Net cash used in investing activities		
Purchase of investment properties	(95,699)	—
Purchase of property, plant and equipment	(1,030)	(20,354)
Increase in pledged bank deposits	—	(10,000)
Other investing cash flows	150	1,119
	(96,579)	(29,235)
Net cash used in financing activities		
Other financing cash flows	—	(61)
Net decrease in cash and cash equivalents	(103,728)	(44,402)
Cash and cash equivalents		
at beginning of the period	154,870	139,753
Effect of foreign exchange rate changes	6	106
Cash and cash equivalents at end of the period, represented by bank balances and cash	51,148	95,457

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. SIGNIFICANT 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 2009, except for the adoption of accounting policy for investment properties as follows:

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure, except for the properties transferred from property, plant and equipment, which are measured at fair value at the date of transfer. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year in which the item is derecognised.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 April 2009.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard and has not resulted in a redesignation of the Group's reportable segments (see note 3).

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 24 (Revised)	Related party disclosures ³
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of rights issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁵
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁵
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁶
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 18	Transfers of assets from customers ⁷

¹ Effective for annual periods beginning on or after 1 July 2009.

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 January 2010.

⁶ Effective for annual periods beginning on or after 1 January 2013.

⁷ Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the chief executive officer, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14 “Segment Reporting”) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments. The Group’s primary reporting format was business segments comprising three main operating divisions - bleaching and dyeing, knitting and property investment. The directors of the Company consider that the adoption of HKFRS 8 has not changed the identified operating segments for the Group compared to the annual financial statements for the year ended 31 March 2009.

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the chief executive officer. The chief executive officer assesses segment profit or loss using a measure of operating profit. The measurement policies the Group used for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements, except that certain items are not included in arriving at the segment results of the operating segments (gain arising from fair value change of investments held for trading, income tax expenses and corporate income and expenses).

For the six months ended 30 September 2009

	Bleaching and dyeing HK\$'000	Knitting HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover					
External	15,000	223	122	—	15,345
Inter-segment	—	7,268	—	(7,268)	—
	<u>15,000</u>	<u>7,491</u>	<u>122</u>	<u>(7,268)</u>	<u>15,345</u>
Total	<u>15,000</u>	<u>7,491</u>	<u>122</u>	<u>(7,268)</u>	<u>15,345</u>
Segment results	<u>(3,417)</u>	<u>(7,109)</u>	<u>416</u>	<u>—</u>	<u>(10,110)</u>
Gain arising from fair value change of investments held for trading					643
Unallocated corporate expenses					<u>(5,740)</u>
Loss before taxation					(15,207)
Taxation					<u>(760)</u>
Loss for the period					<u><u>(15,967)</u></u>

3. SEGMENT INFORMATION (Cont'd)

For the six months ended 30 September 2008

	Bleaching and dyeing HK\$'000	Knitting HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover					
External	23,789	86	—	—	23,875
Inter-segment	—	16,242	—	(16,242)	—
Total	<u>23,789</u>	<u>16,328</u>	<u>—</u>	<u>(16,242)</u>	<u>23,875</u>
Segment results	<u>(9,379)</u>	<u>(910)</u>	<u>—</u>	<u>—</u>	<u>(10,289)</u>
Unallocated corporate expenses					(3,845)
Finance costs					<u>(475)</u>
Loss before taxation					(14,609)
Taxation					<u>(796)</u>
Loss for the period					<u>(15,405)</u>

4. LOSS BEFORE TAXATION

Six months ended 30 September	
2009	2008
HK\$'000	HK\$'000

Loss before taxation has been arrived at after charging:

Allowance for inventories (included in cost of sales)	821	—
Amortisation of prepaid lease payments	440	437
Depreciation of property, plant and equipment	2,162	1,842
Total staff costs (including directors' emoluments)	<u>4,471</u>	<u>4,776</u>

5. TAXATION

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	118	—
PRC enterprise income tax	425	796
	543	796
Deferred tax (note 14)	217	—
Tax charge attributable to the Company and its subsidiaries	760	796

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2008 as the Company and its subsidiaries had no assessable profit for that period.

PRC enterprise income tax is calculated at 25% for the Company's subsidiaries operating in the People's Republic of China ("PRC").

6. BASIC LOSS PER SHARE

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

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
Loss for the purposes of basic loss per share	(15,967)	(15,405)
	Number of shares	
Weighted average number of shares for the purposes of basic loss per share	80,958,284	9,279,143

The denominator for the purpose of calculating basic loss per share for the six months ended 30 September 2009 has been adjusted to reflect the consolidation of shares in October 2009 on the basis of ten shares being consolidated into one share and the rights issue in November 2009 on the basis of four rights shares for every ordinary share.

The denominator for the purpose of calculating basic loss per share for the six months ended 30 September 2008 has been adjusted to reflect the rights issue in January 2009 on the basis of ten rights shares for every ordinary share, the consolidation of shares in October 2009 on the basis of ten shares being consolidated into one share and the rights issue in November 2009 on the basis of four rights shares for every ordinary share.

7. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group spent HK\$1,030,000 on acquisition of property, plant and equipment (the prior period: HK\$20,354,000).

During the current period, the directors conducted a review of the Group's manufacturing assets used in the knitting segment, and determined that a number of those assets were impaired due to the continuous operating loss of the knitting segment. An impairment loss of HK\$5,338,000 has been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 September 2009 in respect of property, plant and equipment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use.

As disclosed in note 15 to the financial statements for the year ended 31 March 2009 and set out in the announcement of the Company dated 24 February 2009, the Huzhou Project is no longer viable and therefore the Group stopped further investment in the Huzhou Project. The directors conducted an impairment review in relation to the completed buildings of HK\$98,522,000 for Huzhou Project and related prepaid lease payments of HK\$41,361,000 as at 30 September 2009. The directors believe that no impairment is considered necessary as the recoverable amount based on estimated fair value less costs to sell the buildings together with the related leasehold land element is higher than the carrying amounts. Prepaid lease payments in respect of the Huzhou Project are as disclosed in note 9.

8. INVESTMENT PROPERTIES

During the six months ended 30 September 2009, the Group acquired investment properties for a consideration of HK\$95,699,000.

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 qualified professional valuers, on market value basis by reference to market evidence of transaction prices for similar properties in the same locations and conditions at 30 September 2009. The gain arising from changes in fair value of the investment properties of HK\$301,000 has been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 September 2009.

9. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights situated in the PRC held under medium-term leases. At 30 September 2009, the relevant PRC authority has not vacated certain land of carrying amount of HK\$36,893,000 (31.3.2009: HK\$37,285,000) for use by the Group, HK\$nil (31.3.2009: HK\$21,028,000) of which have yet to be granted the land use rights certificates.

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 90 days to its customers. The aged analysis of trade receivables at the end of the reporting period is as follows:

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
0 - 60 days	4,752	15,259
61 - 90 days	1,512	2,905
Over 90 days	35,254	27,731
	<hr/>	<hr/>
Trade receivables	41,518	45,895
Prepayments	167	210
Refundable deposit in respect of construction of equipment	17,967	17,967
Other receivables	138	274
	<hr/>	<hr/>
	59,790	64,346
	<hr/> <hr/>	<hr/> <hr/>

11. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the end of the reporting period is as follows:

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
0 - 60 days	1,330	7,201
61 - 90 days	82	880
Over 90 days	140	45
	<hr/>	<hr/>
Trade payables	1,552	8,126
Accruals	10,202	15,106
Rental deposits received	720	—
Other payables	881	500
	<hr/>	<hr/>
	13,355	23,732
	<hr/> <hr/>	<hr/> <hr/>

12. BILLS PAYABLE

At 30 September 2009, there were no outstanding bills payable. At 31 March 2009, all bills payable were aged within 30 days.

13. SHARE CAPITAL

	Notes	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2008		0.01	20,000,000,000	200,000
Reduction of share capital	(c)(ii)		—	(198,000)
			<hr/>	<hr/>
Consolidation of shares	(c)(iii)	0.0001	20,000,000,000 (19,800,000,000)	2,000 —
			<hr/>	<hr/>
Increase	(c)(iv)	0.01 0.01	200,000,000 19,800,000,000	2,000 198,000
			<hr/>	<hr/>
At 31 March 2009 and 30 September 2009		0.01	<u>20,000,000,000</u>	<u>200,000</u>
Issued and fully paid:				
At 1 April 2008		0.01	5,890,612,860	58,906
On conversion of convertible note	(a)	0.01	784,375,000	7,843
			<hr/>	<hr/>
Exercise of share options	(b)	0.01 0.01	6,674,987,860 2,140	66,749 —
			<hr/>	<hr/>
Reduction of share capital	(c)(i)		6,674,990,000 —	66,749 (66,082)
			<hr/>	<hr/>
Consolidation of shares	(c)(iii)	0.0001	6,674,990,000 (6,608,240,100)	667 —
			<hr/>	<hr/>
Rights issue of shares	(d)	0.01 0.01	66,749,900 667,499,000	667 6,675
			<hr/>	<hr/>
At 31 March 2009 and 30 September 2009		0.01	<u>734,248,900</u>	<u>7,342</u>

13. SHARE CAPITAL (Cont'd)

Notes:

- (a) On 17 April 2008, 30 April 2008 and 12 June 2008, the holder of the Group's convertible note exercised his conversion right and converted the convertible note at its par value of HK\$37,650,000 into 784,375,000 new ordinary shares of HK\$0.01 each in the share capital of the Company at a conversion price of HK\$0.048 per conversion share.
- (b) On 18 August 2008, an option to subscribe for a total of 2,140 ordinary shares of HK\$0.01 each of the Company at a subscription price of HK\$0.0162 per share was granted pursuant to the Company's share option scheme adopted on 6 June 2002. The share options are exercisable within 14 days after the date of acceptance. The offer was accepted on 19 August 2008 for a nominal consideration of HK\$1 and was exercised in full on the same date.
- (c) As announced by the Company on 14 August 2008, the Company proposed to effect (i) reduction of the nominal value of each issued share from HK\$0.01 each to HK\$0.0001 each by cancelling HK\$0.0099 paid up share capital for each share in issue ("Issued Capital Reduction"); (ii) reduction of the nominal value of all shares in the authorised share capital of the Company from HK\$0.01 each to HK\$0.0001 each, resulting in the reduction of the authorised share capital from HK\$200,000,000 to HK\$2,000,000 divided into 20,000,000,000 shares of HK\$0.0001 each; (iii) a share consolidation pursuant to which every one hundred issued and unissued then existing shares of HK\$0.0001 each were consolidated into one consolidated share of HK\$0.01 each; (iv) increase of the authorised share capital from HK\$2,000,000 divided into 200,000,000 consolidated shares of HK\$0.01 each to HK\$200,000,000 divided into 20,000,000,000 consolidated shares of HK\$0.01 each by the creation of 19,800,000,000 new consolidated shares; and (v) transfer of credit arising from the Issued Capital Reduction with the amount of HK\$66,082,401 to set off against part of the accumulated losses of the Company. The above are collectively referred to the "Capital Reorganisation". Details of the Capital Reorganisation are set out, inter alia, in the circular of the Company dated 29 August 2008. A special resolution approving the Capital Reorganisation was passed at the special general meeting of the Company held on 22 September 2008. The Capital Reorganisation became effective on 23 September 2008.
- (d) On 19 January 2009, the Company allotted 667,499,000 rights shares of HK\$0.01 each at the subscription price of HK\$0.15 per rights share on the basis of ten rights share for every existing ordinary share held. The Company raised HK\$99,441,000 (net of expenses) with the intention at the time of rights issue to finance the development of manufacturing operations in the PRC and for general working capital use.

All shares issued during the six months ended 30 September 2008 rank pari passu with the then existing shares in issue in all respects.

14. DEFERRED TAXATION

	Investment properties HK\$'000
At 1 April 2009	—
Charge to the condensed consolidated statement of comprehensive income	<u>217</u>
At 30 September 2009	<u><u>217</u></u>

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Name of related party		
Easyknit Global Company Limited	<u>120</u>	<u>120</u>

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

- (b) Compensation of key management personnel

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

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Short-term employee benefits	<u>1,565</u>	<u>1,545</u>

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

16. CAPITAL COMMITMENTS

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u><u>962</u></u>	<u><u>1,153</u></u>

17. EVENTS AFTER THE END OF THE INTERIM PERIOD

- (a) As announced by the Company on 25 August 2009, the Company proposed the following:
- (i) reduction of the nominal value of each issued share of the Company from HK\$0.01 each to HK\$0.001 each by cancelling HK\$0.009 paid up share capital for each share in issue ("2009 Issued Capital Reduction");
 - (ii) a share consolidation pursuant to which every ten issued and unissued then existing shares of HK\$0.001 each shall be consolidated into one consolidated share of HK\$0.01 each;
 - (iii) reduction of the entire amount standing to the credit of the share premium account of the Company to nil ("Share Premium Reduction");
 - (iv) transfer of the credit amount arising from the 2009 Issued Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company, and the application of the appropriate amounts therein to set off against the total accumulated losses of the Company;
 - (v) the rights issue of 293,699,560 rights shares of HK\$0.01 each at the subscription price of HK\$0.38 per rights share on the basis of four rights shares for every existing ordinary share held.

At the special general meeting of the Company held on 13 October 2009, resolutions approving the above were passed. And the rights shares were allotted on 3 November 2009.

Details of the above are set out, inter alia, in the circular and prospectus of the Company dated 11 September 2009 and 14 October 2009, respectively.

- (b) As announced by the Company on 22 October 2009, the Group acquired certain equity securities listed in Hong Kong, which were classified as investments held for trading, from the market at a consideration of approximately HK\$4.5 million (exclusive of transaction costs).

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2009 (six months ended 30 September 2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

During the six month ended 30 September 2009, the Group recorded a turnover of approximately HK\$15,345,000 (six months ended 30 September 2008: approximately HK\$23,875,000), representing a decrease of approximately 35.7% from the same period last year. The cost of sales reduced by approximately 31.0% to approximately HK\$17,778,000 (six months ended 30 September 2008: approximately HK\$25,769,000). The Group recorded a gross loss of approximately HK\$2,433,000 (six months ended 30 September 2008: gross loss of approximately HK\$1,894,000). The gross loss was again due to the increase in fixed production cost per unit as a result of decrease in sales and the allowance for inventories of approximately HK\$821,000.

The Group's total operating expenses reduced to approximately HK\$9,049,000 as compared to the same period last year of approximately HK\$9,151,000. No finance cost was recorded for the six months ended 30 September 2009 (six months ended 30 September 2008: HK\$475,000).

Loss attributable to shareholders increased approximately 3.6% to approximately HK\$15,967,000 (six months ended 30 September 2008: approximately HK\$15,405,000). The loss was mainly due to decrease in sales and the impairment of approximately HK\$5,338,000 made on recognising the decrease in recoverable amount of the manufacturing assets of the Group (six months ended 30 September 2008: Nil). Loss per share for the period was approximately HK cents 19.7 (six months ended 30 September 2008: approximately HK cents 166).

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Business Review

The bleaching and dyeing business continued to be the principal business of the Group and contributed to approximately 97.8% of the Group's total turnover during the period under review, whereas the knitting business accounted for approximately 1.4% and the new segment of property investment accounted for the remaining approximately 0.8% of the total turnover of the Group.

Turnover for the bleaching and dyeing business reduced by approximately 36.9% to approximately HK\$15,000,000 (six months ended 30 September 2008: approximately HK\$23,789,000). This segment suffered a loss of approximately HK\$3,417,000 (six months ended 30 September 2008: loss of approximately HK\$9,379,000). The loss from this segment was again due to the increase in fixed production cost per unit as a result of decrease in sales.

The knitting business contributed approximately HK\$223,000 to the Group's total turnover for the period under review (six months ended 30 September 2008: approximately HK\$86,000). Taking into account the portion of inter-segment sales, the turnover derived from this business dropped by 54.1% to approximately HK\$7,491,000 (six months ended 30 September 2008: approximately HK\$16,328,000). Loss from this segment increased to approximately HK\$7,109,000 as compared to approximately HK\$910,000 for the same period in last year. The increase in loss was due to the decrease of inter-segment sales, as well as the impairment loss recognised in respect of manufacturing assets of approximately HK\$5,338,000 during the period under review.

During the period, the Group purchased two properties located at Ground Floor and Cockloft Floor, No. 13 Matheson Street, Hong Kong ("Matheson Street Property") and Ground Floor, No. 148 Johnston Road, Hong Kong ("Johnston Road Property") for considerations of HK\$53,688,000 and HK\$38,000,000 respectively. Matheson Street Property and Johnston Road Property currently receive monthly rental at HK\$170,000 and HK\$105,000 respectively. The acquisition of the two properties enables the Group to extend its business activities to property investments and increase its earning from rental income generated. Please refer to the section "Material Acquisitions and Disposals" below for details of these two acquisitions. During the period, the two newly acquired properties contributed to approximately HK\$122,000 to the Group's total turnover.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Geographical analysis

During the period, the Group's turnover was mainly derived from sales made to customers in Hong Kong with manufacturing operations located in the PRC. The Group also recorded small amount of rental income derived from properties located in Hong Kong.

Development on the Huzhou Project

As at the date of this report, two blocks of factory premises and four blocks of workers' quarters have been completed on the land for garment manufacturing operation in respect of the Group's project in constructing knitting, bleaching and dyeing and garment manufacturing operations in Zhili Town, Huzhou City, China (the "Huzhou Project"). The land use right certificate of the remaining portion of land earmarked for dyeing and bleaching operation has now been granted and issued to the Group.

An announcement was published by the Company on 24 February 2009 concerning the Group having been advised by the Zhili Town Government by a letter dated 6 February 2009 that the plans for the Huzhou Project have to be changed due to the deterioration of the environment along the Taihu Lake area in the recent two years. The dyeing and bleaching operations, being an integral part of the Huzhou Project plan, may discharge significant quantities of liquid waste. Any such discharge will no longer be permitted.

The Zhili Town Government has now suggested that the land for knitting, bleaching and dyeing operations of the Huzhou Project be sold back to the local government at a profit to the Group. Negotiation is being conducted.

Prospects

The Board anticipates that the businesses of the Group will feel the impact of a declining market. Facing with present worldwide adverse financial condition, the Board decided to cease its knitting, bleaching and dyeing manufacturing operations by end of November 2009 in order to prevent future loss in earnings. If the adverse condition prevails, the Board may look for other more profitable businesses.

As regard to the Huzhou Project, the Board together with the Huzhou Government is looking at other options which will be of benefit to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Liquidity and Financial Resources

During the six months ended 30 September 2009, the Group financed its operations mainly by internally generated resources. Shareholders' funds of the Group as at 30 September 2009 was approximately HK\$340,613,000 (31 March 2009: approximately HK\$356,580,000). As the Group had no bank borrowings as at 30 September 2009, no gearing ratio of the Group was presented (31 March 2009: Nil).

The Group continued to sustain a liquidity position. As at 30 September 2009, the Group had net current assets of approximately HK\$105,592,000 (31 March 2009: approximately HK\$208,622,000) and cash and cash equivalents of approximately HK\$51,148,000 (31 March 2009: approximately HK\$154,870,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and Renminbi. As at 30 September 2009, the Group's current ratio was approximately 6.3 (31 March 2009: approximately 7.6), which was calculated on the basis of current assets of approximately HK\$125,559,000 (31 March 2009: approximately HK\$240,161,000) to current liabilities of approximately HK\$19,967,000 (31 March 2009: approximately HK\$31,539,000). The decrease in the current ratio was primarily due to the decrease in current assets by approximately HK\$114,602,000. During the period under review, the Group serviced its debts mainly through internally generated resources.

The Board believes that the Group has sufficient financial resources for its operations. The Board will remain cautious in the Group's liquidity management.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Capital Structure

On 25 August 2009, the Company announced its proposals:—

- (i) To undertake a capital reorganisation of the Company (the “Capital Reorganisation”) involving:—
 - (a) the reduction of the issued share capital of the Company by cancelling the paid up capital to the extent of HK\$0.009 on each of the issued share such that the nominal value of all the issued shares be reduced from HK\$0.01 each to HK\$0.001 each (the “Issued Capital Reduction”);
 - (b) the consolidation of every ten (10) issued shares of HK\$0.001 each in the issued share capital of the Company into one (1) share of HK\$0.01 each (the “Adjusted Share”);
 - (c) the entire amount standing to the credit of the share premium account of the Company be reduced to zero (the “Share Premium Reduction”); and
 - (d) the transfer of the credit amount arising from the Issued Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company and the application of the appropriate amounts therein to set off against the total accumulated losses of the Company.
- (ii) Upon the Capital Reorganisation became effective, the Company would raise approximately HK\$109 million, net of expenses, by way of rights issue of 293,699,560 rights shares (the “Rights Shares”) at the subscription price of HK\$0.38 per rights share on the basis of four rights shares for every Adjusted Share held (the “Rights Issue”).

Details of the Capital Reorganisation and the Rights Issue were set out in the Company's circular dated 11 September 2009. At the special general meeting of the Company held on 13 October 2009, special resolution and ordinary resolution approving the Capital Reorganisation and the Rights Issue were passed by the shareholders respectively. The Rights Shares were allotted by the Company on 3 November 2009.

Save as disclosed above, the Group had no debt securities or other capital instruments as at 30 September 2009 and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Material Acquisitions and Disposals

On 3 July 2009, the Company announced to acquire the entire issued share capital of Chancemore Limited (“Chancemore”) and Clever Wise Holdings Limited (“Clever Wise”). The acquisitions enabled the Group to acquire the Matheson Street Property and the Johnston Road Property. The acquisition of Chancemore and Clever Wise constituted a major transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The acquisitions were approved by the shareholders of the Company at a special general meeting held on 12 August 2009. Details of this major transaction were set out in the Company’s circular dated 24 July 2009. Chancemore and Clever Wise became wholly owned subsidiaries of the Group on 11 September 2009, and the Group simultaneously completed the purchase of the Matheson Street Property and Johnston Road Property within the month of September 2009.

As announced on 22 October 2009, the Group acquired on the Stock Exchange 50,000 shares of The Hongkong and Shanghai Banking Corporation Limited at a total consideration of HK\$4,462,500 (exclusive of transaction cost).

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2009.

Charges on Group Assets

Except for the pledged deposit of HK\$10,000,000 as shown in the condensed consolidated statement of financial position at 30 September 2009, the Group did not have any other charges on assets as at 30 September 2009.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2009, the Group spent approximately HK\$1,030,000 on acquisition of property, plant and equipment (six months ended 30 September 2008: approximately HK\$20,354,000).

As at 30 September 2009, the Group had capital commitments in respect of capital expenditure contracted for but not provided of approximately HK\$962,000 (31 March 2009: approximately HK\$1,153,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2009 (31 March 2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Significant Investment

Apart from the Huzhou Project, the Matheson Street Property and the Johnston Road Property, the Group did not have any significant investment held as at 30 September 2009.

Future Plan for Material Investments

The Board constantly looks for investment opportunities. Recently, the Board has been exploring the possibility of acquiring the garment sourcing and export business from Easyknit International Holdings Limited, which is a substantial shareholder of the Company. If proceeded with, this acquisition is likely to constitute a very substantial acquisition and a connected transaction for the Company as defined under the Listing Rules. The expected source of funding for this acquisition will come from internal source of the Group.

Employment and Remuneration Policy

As at 30 September 2009, the Group employed approximately 130 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including directors' emoluments) amounted to approximately HK\$4,471,000 for the period under review (six months ended 30 September 2008: approximately HK\$4,776,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund Scheme for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has a share option scheme to motivate valued employees.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2009, the interests and short positions of the directors and the chief executives of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(a) Interests in issued ordinary shares

Name of director	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	232,790,657	31.70%

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

(b) Interests in unissued ordinary shares

Name of director	Capacity	Number of unissued ordinary shares held (long position)
Ms. Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	93,116,260

Note: The 93,116,260 unissued ordinary shares are the Rights Shares which Landmark Profits Limited has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Landmark Profits Limited was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse).

DIRECTORS' INTERESTS IN SECURITIES *(Cont'd)*

Save as disclosed above, as at 30 September 2009, 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 2009 was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

SHARE OPTION SCHEME

On 6 June 2002, a share option scheme (the "Share Option Scheme") was approved by the shareholders of the Company pursuant to the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). No options were granted, exercised or cancelled under the Share Option Scheme during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, the persons (other than the directors or the chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(a) Interests in issued ordinary shares

Name of substantial shareholder	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Koon Wing Yee (<i>note a</i>)	Interest of spouse	232,790,657	31.70%
Landmark Profits Limited (<i>notes a and b</i>)	Beneficial owner	232,790,657	31.70%
Easyknit International (<i>notes a and b</i>)	Interest of controlled corporation	232,790,657	31.70%
Magical Profits Limited (<i>notes a & c</i>)	Interest of controlled corporation	232,790,657	31.70%
Accumulate More Profits Limited (<i>note a</i>)	Interest of controlled corporation	232,790,657	31.70%
Hang Seng Bank Trustee International Limited (<i>notes a & d</i>)	Trustee	232,790,657	31.70%
Hang Seng Bank Limited (<i>note d</i>)	Interest of controlled corporation	232,790,657	31.70%
The Hongkong and Shanghai Banking Corporation Limited (<i>notes d and e</i>)	Interest of controlled corporation	232,790,658	31.70%
HSBC Asia Holdings BV (<i>note e</i>)	Interest of controlled corporation	232,790,658	31.70%
HSBC Asia Holdings (UK) (<i>note e</i>)	Interest of controlled corporation	232,790,658	31.70%
HSBC Holdings BV (<i>note e</i>)	Interest of controlled corporation	232,790,658	31.70%
HSBC Finance (Netherlands) (<i>note e</i>)	Interest of controlled corporation	232,790,658	31.70%
HSBC Holdings plc (<i>note e</i>)	Interest of controlled corporation	232,790,658	31.70%
Park Jong Yong	Beneficial owner	80,222,944	10.92%

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Notes:

- (a) The 232,790,657 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Landmark Profits Limited, which was a wholly-owned subsidiary of the Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a director of the Company, and her family members other than her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu was deemed to be interested in the 232,790,657 shares by virtue of the SFO.
- (b) Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being the directors of the Company, are also directors of Landmark Profits Limited and Easyknit International.
- (c) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited.
- (d) Hang Seng Bank Trustee International Limited was a wholly-owned subsidiary of Hang Seng Bank Limited. Hang Seng Bank Limited was owned as to approximately 62.14% by The Hongkong and Shanghai Banking Corporation Limited.
- (e) The 232,790,658 shares relate to the same block of shares. Out of 232,790,658 shares, 232,790,657 shares were registered in the name of and beneficially owned by Landmark Profits Limited. The remaining one share was 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 & 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.

SUBSTANTIAL SHAREHOLDERS (Cont'd)

(b) Interests in unissued ordinary shares

Name of shareholder	Nature of Interest	Number of unissued ordinary shares held (long position)
Koon Wing Yee (note a)	Interest of spouse	93,116,260
Landmark Profits Limited (notes a and b)	Beneficial owner	93,116,260
Easyknit International (notes a and b)	Interest of controlled corporation	93,116,260
Magical Profits Limited (notes a and c)	Interest of controlled corporation	93,116,260
Accumulate More Profits Limited (note a)	Interest of controlled corporation	93,116,260
Hang Seng Bank Trustee International Limited (notes a & d)	Trustee	93,116,260
Hang Seng Bank Limited (note d)	Interest of controlled corporation	93,116,260
The Hongkong and Shanghai Banking Corporation Limited (note d)	Interest of controlled corporation	93,116,260
HSBC Asia Holdings BV (note d)	Interest of controlled corporation	93,116,260
HSBC Asia Holdings (UK) (note d)	Interest of controlled corporation	93,116,260
HSBC Holdings BV (note d)	Interest of controlled corporation	93,116,260
HSBC Finance (Netherlands) (note d)	Interest of controlled corporation	93,116,260
HSBC Holdings plc (note d)	Interest of controlled corporation	93,116,260
Kingston Securities Limited (note e)	Other	200,583,300
Chu Yuet Wah (note e)	Interest of controlled corporation	200,583,300
Ma Siu Fong (note e)	Interest of controlled corporation	200,583,300
Cheer Union Securities Limited (note f)	Other	70,000,000

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Notes:

- (a) The 93,116,260 unissued shares are the Rights Shares which Landmark Profits Limited has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Landmark Profits Limited was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a director of the Company, and her family members other than her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 93,116,260 unissued shares by virtue of the SFO.
- (b) Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being directors of the Company, are also directors of Landmark Profits Limited and Easyknit International.
- (c) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited.
- (d) Hang Seng Bank Trustee International Limited was a wholly-owned subsidiary of Hang Seng Bank Limited. Hang Seng Bank Limited was owned as to approximately 62.14% by The Hongkong & Shanghai Banking Corporation Limited. The Hongkong & 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.
- (e) The 200,583,300 unissued shares are the Rights Shares which Kingston Securities Limited (the "Underwriter") has underwritten in respect of the Rights Issue. The Underwriter is owned as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong.
- (f) The 70,000,000 unissued shares 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 2009, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2009.

EXECUTIVE COMMITTEE

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

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon (Committee Chairman), Mr. Lau Sin Ming, and Mr. Foo Tak Ching. The Audit Committee has reviewed with management and the Company's auditor the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2009.

REMUNERATION COMMITTEE

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

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

During the six months ended 30 September 2009, the Company complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in the Appendix 14 to the Listing Rules except the following deviations:

Code Provision A.2.1

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

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

Code Provision A.4.1

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

The non-executive directors are not appointed for a specific term but they are subject to retirement by rotation and re-election at least once for every 3 annual general meetings pursuant to the Bye-Laws of the Company.

Code Provision A.4.2

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

The reasons for the above deviation are set out on page 11 of the Company’s annual report for the financial year ended 31 March 2009.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct in relation to directors’ securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Model Code throughout the six months ended 30 September 2009.

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

Hong Kong, 1 December 2009

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