



Easyknit Enterprises Holdings Limited

永義實業集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 616)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

The board of directors (the “Board”) of Easyknit Enterprises Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2006, together with comparative figures for the corresponding period in 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	NOTES	Six months ended 30 September	
		2006	2005
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	29,543	26,858
Cost of sales and services		<u>(28,060)</u>	<u>(24,874)</u>
Gross profit		1,483	1,984
Other income		3,035	147
Distribution costs		(206)	(256)
Administrative expenses		(7,274)	(7,053)
Impairment loss recognised in respect of goodwill		—	(12,445)
Allowance for doubtful debts		(1,569)	—
Finance costs		<u>(32)</u>	<u>(1,253)</u>
Loss for the period	4	<u>(4,563)</u>	<u>(18,876)</u>
Basic loss per share	6	<u>HK cent (0.1)</u>	<u>HK cents (3.7)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2006

	<i>NOTES</i>	30 September 2006 HK\$'000 (Unaudited)	31 March 2006 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		33,647	24,596
Prepaid lease payments		8,894	8,814
Prepayments and deposits paid for acquisition of property, plant and equipment		<u>15,930</u>	<u>15,628</u>
		<u>58,471</u>	<u>49,038</u>
Current assets			
Inventories		11,203	4,629
Trade and other receivables	7	25,521	21,673
Prepaid lease payments		187	183
Bank balances and cash		<u>96,739</u>	<u>110,018</u>
		<u>133,650</u>	<u>136,503</u>
Current liabilities			
Trade and other payables	8	15,059	8,847
Bills payable	9	4,385	682
Bank loans due within one year		<u>—</u>	<u>984</u>
		<u>19,444</u>	<u>10,513</u>
Net current assets		<u>114,206</u>	<u>125,990</u>
		<u>172,677</u>	<u>175,028</u>
Capital and reserves			
Share capital		39,271	3,927
Reserves		<u>133,406</u>	<u>171,101</u>
		<u>172,677</u>	<u>175,028</u>

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

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 “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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2006 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“INT”s) (“new HKFRSs”) issued by the HKICPA that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

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

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 May 2006.

³ Effective for annual periods beginning on or after 1 June 2006.

⁴ Effective for annual periods beginning on or after 1 November 2006.

3 SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into two main operating divisions - bleaching and dyeing and knitting. These divisions are the basis on which the Group reports its primary segment information.

For the six months ended 30 September 2006

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

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

For the six months ended 30 September 2005

	Bleaching and dyeing <i>HK\$'000</i>	Knitting <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External	26,707	151	—	26,858
Inter-segment	<u>—</u>	<u>2,157</u>	<u>(2,157)</u>	<u>—</u>
Total	<u>26,707</u>	<u>2,308</u>	<u>(2,157)</u>	<u>26,858</u>
Segment result	<u>(12,932)</u>	<u>(1,091)</u>	<u>—</u>	(14,023)
Interest income				90
Unallocated corporate expenses				(3,690)
Finance costs				<u>(1,253)</u>
Loss for the period				<u>(18,876)</u>

4 LOSS FOR THE PERIOD

	Six months ended	
	30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period has been arrived at after charging:		
Depreciation	1,705	1,677
Total staff costs (including directors' emolument)	<u>5,427</u>	<u>3,233</u>

5 TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the period ended 30 September and 2006 and 2005.

Pursuant to Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, the Company's subsidiaries are entitled to preferential tax treatment with full exemption from PRC enterprise income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years. The Company's subsidiaries have not yet started their first profitable year of operations.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

6 BASIC LOSS PER SHARE

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

	Six months ended	
	30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the purposes of basic loss per share	<u>(4,563)</u>	<u>(18,876)</u>
	No of shares	
Weighted average number of shares for the purposes of basic loss per share	<u>3,927,075,240</u>	<u>505,291,484</u>

The denominator for the purposes of calculating basic loss per share for the six months ended 30 September 2005 has been adjusted to reflect the bonus issue of share on the basis of nine bonus shares for every share held in June 2006.

No diluted loss per share has been presented for the six months ended 30 September 2005 as the exercise of the Company's outstanding share options would reduce the loss per share for the period.

No diluted loss per share has been presented as for the six months ended 30 September 2006 as there is no outstanding share option during the period.

7 TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 90 days to its customers. The aged analysis of trade receivables at the balance sheet date, based on invoice date, is as follows:

	30 September 2006 <i>HK\$'000</i>	31 March 2006 <i>HK\$'000</i>
0 - 60 days	13,024	7,504
61 - 90 days	3,551	2,340
91 - 120 days	2,799	5,196
Over 120 days	<u>3,602</u>	<u>4,738</u>
Trade receivables	22,976	19,778
Other receivables	<u>2,545</u>	<u>1,895</u>
	<u><u>25,521</u></u>	<u><u>21,673</u></u>

8 TRADE AND OTHER PAYABLES

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

	30 September 2006 <i>HK\$'000</i>	31 March 2006 <i>HK\$'000</i>
0 - 60 days	6,692	4,963
61 - 90 days	2,322	1,286
91 - 120 days	533	233
Over 120 days	<u>—</u>	<u>—</u>
Trade payables	9,547	6,482
Other payables	<u>5,512</u>	<u>2,365</u>
	<u><u>15,059</u></u>	<u><u>8,847</u></u>

9 BILLS PAYABLE

At the balance sheet date, all the bills payable are not yet over due and are aged within 60 days.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

CHANGE OF COMPANY NAME

With effect from 19 June 2006, the name of the Company has been changed from “Asia Alliance Holdings Limited” to “Easyknit Enterprises Holdings Limited” and the new Chinese name of “永義實業集團有限公司” has been adopted to replace the Chinese name of “亞洲聯盟集團有限公司” for identification purpose.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$29,543,000, an increase of approximately 10.0% over approximately HK\$26,858,000 for the same period last year. Gross profit dropped approximately 25.3% to approximately HK\$1,483,000 (six months ended 30 September 2005: approximately HK\$1,984,000). Loss attributable to shareholders amounted to approximately HK\$4,563,000 as compared to approximately HK\$18,876,000 for the same period in 2005. Loss per share was approximately HK cent 0.1 (six months ended 30 September 2005: approximately HK cents 3.7).

The significant decrease in loss for the period under review was primarily attributable to the quantum leap in other income and substantial reduction in finance costs as well as the one-off impairment loss recognised in respect of goodwill of approximately HK\$12,445,000 in the same period last year. This was partly offset by the increase in cost of sales and services, and allowance for doubtful debts of approximately HK\$1,569,000.

The cost of sales and services went up by approximately 12.8% to approximately HK\$28,060,000 (six months ended 30 September 2005: approximately HK\$24,874,000), primarily due to the growth in sales, increase in material costs and addition of new costs, including the rent and management fee for the factory.

The other income surged approximately 19.6 times to reach approximately HK\$3,035,000 (six months ended 30 September 2005: approximately HK\$147,000), mainly due to the write back of allowance for doubtful debts of approximately HK\$1,690,000 and increase in interest income of approximately HK\$1,211,000.

The Group’s total operating expenses remained stable at approximately HK\$7,480,000 (six months ended 30 September 2005: approximately HK\$7,309,000).

Finance costs dropped approximately 97.4% to approximately HK\$32,000 (six months ended 30 September 2005: approximately HK\$1,253,000), principally by reason of the decrease in bank loans during the period under review.

Business Review

During the six months ended 30 September 2006, the Group was principally engaged in the businesses of bleaching and dyeing and knitting.

The bleaching and dyeing business continued to be the major business of the Group and contributed to 100.0% of the Group's total turnover for the period under review, an approximately 0.6% increase over the same period last year of approximately 99.4%. Turnover of this segment increased by approximately 10.6% to approximately HK\$29,543,000 (six months ended 30 September 2005: approximately HK\$26,707,000). This segment suffered a loss of approximately HK\$2,129,000 (six months ended 30 September 2005: approximately HK\$12,932,000), largely due to higher material and staff costs despite of the fact that an one-off impairment loss in respect of goodwill of approximately HK\$12,445,000 was recognised in the same period last year. The Group's bleaching and dyeing factory located in Dongguan, the People's Republic of China (the "PRC") currently has a daily production capacity of about 30,000 pounds.

The knitting business made no contribution to the Group's total turnover for the period under review (six months ended 30 September 2005: approximately 0.6%). Taking into account the portion of inter-segment, the turnover derived from this segment rose drastically by approximately 77.1% to approximately HK\$4,088,000 from approximately HK\$2,308,000 for the same period in 2005. The segment loss decreased from approximately HK\$1,091,000 to approximately HK\$570,000. The knitting mill in Heyuan, the PRC has a daily production capacity of about 20,000 pounds.

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

There have been no material changes to the information disclosed in the Company's annual report for the year ended 31 March 2006 in respect of the Group's project in Huzhou City, Zhejiang Province, the PRC which involves, inter alia, the development of the garment manufacturing, bleaching and dyeing, and knitting capabilities and the construction of a waste water treatment plant (the "Huzhou Project").

Prospects

The directors of the Company anticipate that the businesses of the Group will remain stable in the second half of the financial year ended 31 March 2007 in view of the stable customer base and customer orders. Facing with keen competition in the market, the Group will focus in implementing an effective control in production cost, expanding its customer base and improving its product quality in order to strengthen its competitiveness and bring a positive return to its shareholders.

As regards the Huzhou Project, the directors will continue to keep track of the transfer of the remaining two pieces of land with an aggregate area of approximately 448 mu to the Group. As soon as the land is transferred to the Group, the construction work will be carried out immediately. The directors believe that the Huzhou Project will help the Group to offer one-stop services to its customers ranging from knitting, bleaching and dyeing, and garment manufacturing and benefit from the synergies gained within such vertical integration.

Liquidity and Financial Resources

During the six months ended 30 September 2006, the Group financed its operations mainly by internally generated resources. Shareholders' fund of the Group as at 30 September 2006 was approximately HK\$172,677,000 (31 March 2006: approximately HK\$175,028,000). As the Group had no bank borrowings as at 30 September 2006 (31 March 2006: approximately HK\$984,000), no gearing ratio of the Group is presented at 30 September 2006. As at 31 March 2006, the Group's gearing ratio, which was calculated based on the total borrowings to the shareholders' fund, was approximately 0.006.

The Group continued to sustain a liquidity position. As at 30 September 2006, the Group had net current assets of approximately HK\$114,206,000 (31 March 2006: approximately HK\$125,990,000) and cash and cash equivalents of approximately HK\$96,739,000 (31 March 2006: approximately HK\$110,018,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and Renminbi. As at 30 September 2006, the Group's current ratio was approximately 6.9 (31 March 2006: approximately 13.0), which was calculated on the basis of current assets of approximately HK\$133,650,000 (31 March 2006: approximately HK\$136,503,000) to current liabilities of approximately HK\$19,444,000 (31 March 2006: approximately HK\$10,513,000). The fall in the current ratio was primarily due to the substantial increase in trade and other payables, and bills payable by approximately HK\$6,212,000 and HK\$3,703,000 respectively. During the period under review, the Group serviced its debts mainly through internally generated resources.

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Capital Structure

As announced by the Company on 2 May 2006, the Board proposed, amongst others, (i) the increase in the authorised share capital of the Company from HK\$6,500,000 to HK\$200,000,000 by the creation of an additional 19,350,000,000 unissued shares of HK\$0.01 each (the "Increase in Authorised Share Capital"); and (ii) the issue of 3,534,367,716 bonus shares of HK\$0.01 each by way of capitalisation of an amount of approximately HK\$35,344,000 from the Company's share premium account on the basis of nine bonus shares for every share held (the "Bonus Issue").

Ordinary resolutions approving the Increase in Authorised Share Capital and the Bonus Issue were passed at the special general meeting of the Company held on 19 June 2006, resulting in an authorised share capital of HK\$200,000,000 comprising 20,000,000,000 shares of HK\$0.01 each and an issued share capital of HK\$39,270,752.40 consisting of 3,927,075,240 shares of HK\$0.01 each with effect from 19 June 2006 and 27 June 2006 respectively. Details of the Increase in Authorised Share Capital and the Bonus Issue are set out in the Company's circular dated 19 May 2006.

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

Material Acquisitions and Disposals

The Group had no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2006.

Charges on Group Assets

The Group did not have any charges on assets as at 30 September 2006.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2006, the Group spent approximately HK\$10,687,000 on acquisition of property, plant and equipment (six months ended 30 September 2005: approximately HK\$381,000).

As at 30 September 2006, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK\$53,321,000 (31 March 2006: approximately HK\$26,807,000); and capital expenditure authorised but not contracted for of approximately HK\$419,139,000 (31 March 2006: approximately HK\$466,733,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2006 (31 March 2006: Nil).

Significant Investment

Apart from the Huzhou Project (as defined in “Business Review” above), the Group did not have any significant investment plans or any significant investment held as at 30 September 2006.

Future Plan for Material Investments

While the directors of the Company are constantly looking for investment opportunities, no concrete new investment projects have been identified.

Employment and Remuneration Policy

As at 30 September 2006, the Group employed approximately 280 full time management, technical, administrative staff and workers in Hong Kong and elsewhere in the PRC. Staff cost (including directors’ emoluments) amounted to approximately HK\$5,427,000 for the period under review (six months ended 30 September 2005: approximately HK\$3,233,000). 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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2006.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference. The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon (Committee Chairman), Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming. The Audit Committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters, including review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2006.

CORPORATE GOVERNANCE

During the six months ended 30 September 2006, the Company complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the following deviations:

Code provision A.2.1

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

Code provision A.4.1

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 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 the Company is bound by the provisions of the Act, the Bye-Laws of the Company cannot be amended to fully reflect the requirements of the Code.

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

Code provisions B.1.4 and C.3.4

It was not until November 2006 that the Company established its own website. Thus, the requirement under the Code provisions B.1.4 and C.3.4 that the Company should make available terms of reference of the Audit Committee and the Remuneration Committee on website was not met during the six months ended 30 September 2006. However, these terms of reference are available on request.

Code provision E.1.2

Mr. Kwong Jimmy Cheung Tim, the chairman of the Remuneration Committee, was unable to attend the annual general meeting of the Company held on 18 August 2006 due to business reasons. The other members of the Remuneration Committee including Mr. Kan Ka Hon and Mr. Lau Sin Ming were present to answer questions at the meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct in relation to directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Model Code throughout the six months ended 30 September 2006.

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

Hong Kong, 29 November 2006

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

** For identification only*

Please also refer to the published version of this announcement in The Standard.