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## **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 2010**

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 2010, together with comparative figures for the corresponding period in 2009.

#### **CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010**

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>NOTES</i>	<b>2010</b>	2009
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Continuing operations:			
Turnover	3	<b>201,104</b>	122
Cost of sales		<b>(178,300)</b>	—
Gross profit		<b>22,804</b>	122
Other income		<b>398</b>	274
Other expenses		—	(263)
Distribution and selling expenses		<b>(4,048)</b>	—
Administrative expenses		<b>(14,583)</b>	(5,758)
Gain arising on changes in fair value of investment properties		<b>12,618</b>	301
Gain on fair value changes of investments held for trading		<b>361</b>	643

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>NOTES</i>	<b>2010</b>	2009
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Profit (loss) before taxation		<b>17,550</b>	(4,681)
Taxation	4	<b>(1,957)</b>	(335)
Profit (loss) for the period from continuing operations	5	<b>15,593</b>	(5,016)
Discontinued operations:			
Profit (loss) for the period from discontinued operations	6	<b>287</b>	(10,951)
Profit (loss) for the period		<b>15,880</b>	(15,967)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		<b>3,993</b>	—
Total comprehensive income (expense) for the period		<b>19,873</b>	(15,967)
Basic earnings (loss) per share	7		
From continuing and discontinued operations		<b>HK cents 4.3</b>	HK cents (19.7)
From continuing operations		<b>HK cents 4.2</b>	HK cents (6.2)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30 SEPTEMBER 2010**

		<b>30 September</b>	31 March
	<i>NOTES</i>	<b>2010</b>	2010
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Audited)
Non-current assets			
Property, plant and equipment		<b>1,056</b>	1,363
Investment properties		<b>271,168</b>	255,163
Goodwill		<b>39,313</b>	39,313
Intangible asset		<b>23,177</b>	24,740
		<u><b>334,714</b></u>	<u>320,579</u>
Current assets			
Inventories		<b>78</b>	275
Trade and other receivables	8	<b>79,546</b>	32,972
Bills receivable	9	<b>—</b>	26,266
Investments held for trading		<b>7,916</b>	3,955
Bank balances and cash		<b>136,530</b>	127,912
		<u><b>224,070</b></u>	<u>191,380</u>
Assets classified as held for sale		<b>37,582</b>	36,834
		<u><b>261,652</b></u>	<u>228,214</u>
Current liabilities			
Trade and other payables	10	<b>55,404</b>	33,855
Bills payable	11	<b>3,890</b>	—
Tax payable		<b>6,763</b>	6,710
		<u><b>66,057</b></u>	<u>40,565</u>
Net current assets		<u><b>195,595</b></u>	<u>187,649</u>
Total assets less current liabilities		<u><b>530,309</b></u>	<u>508,228</u>
Non-current liabilities			
Deferred taxation		<b>20,453</b>	18,245
		<u><b>509,856</b></u>	<u>489,983</u>
Capital and reserves			
Share capital		<b>3,671</b>	3,671
Reserves		<b>506,185</b>	486,312
		<u><b>509,856</b></u>	<u>489,983</u>

## NOTES

### 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 consolidated financial statements for the year ended 31 March 2010, except for those described below.

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.

*HKFRS 3 (Revised 2008) “Business Combinations” and HKAS 27 (Revised) “Consolidated and Separate Financial Statements”*

The Group applies HKFRS 3 (Revised 2008) “Business Combinations” prospectively to business combinations of which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for the Group’s changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction during the current interim period to which HKFRS 3 (Revised 2008) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised 2008), HKAS 27 (Revised) and the consequential amendments to other HKFRSs has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions to which HKFRS 3 (Revised 2008), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related party disclosures <sup>3</sup>
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters <sup>2</sup>
HKFRS 7 (Amendment)	Disclosures - Transfers of financial assets <sup>4</sup>
HKFRS 9	Financial instruments <sup>5</sup>
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement <sup>3</sup>
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 April 2013, with earlier application permitted. This standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

### 3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

#### For the six months ended 30 September 2010

Continuing operations:

	<b>Garment sourcing and exporting</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Turnover				
External	<u>198,552</u>	<u>2,552</u>	<u>—</u>	<u>201,104</u>
Segment result	<u>4,660</u>	<u>13,840</u>	<u>—</u>	18,500
Other income				118
Gain on fair value changes of investments held for trading				361
Unallocated corporate expenses				<u>(1,429)</u>
Profit before taxation (continuing operations)				<u>17,550</u>

**For the six months ended 30 September 2009**

Continuing operations:

	<b>Garment sourcing and exporting</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Turnover				
External	<u>—</u>	<u>122</u>	<u>—</u>	<u>122</u>
Segment result	<u>—</u>	<u>416</u>	<u>—</u>	416
Other income				274
Other expenses				(143)
Gain on fair value changes of investments held for trading				643
Unallocated corporate expenses				<u>(5,871)</u>
Loss before taxation (continuing operations)				<u>(4,681)</u>

Segment result represents the result incurred by each segment without allocation of gain on fair value changes of investments held for trading, corporate income and corporate expenses. This is the measure reported to the chief executive officer, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

#### 4. TAXATION

	<b>Six months ended 30 September</b>	
	<b>2010</b>	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:		
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	24	118
Deferred tax	<u>1,933</u>	<u>217</u>
Tax charge attributable to the Company and its subsidiaries	<u><u>1,957</u></u>	<u><u>335</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period.

#### 5. PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS

	<b>Six months ended 30 September</b>	
	<b>2010</b>	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the period from continuing operations has been arrived at after charging:		
Amortisation of intangible asset (included in administrative expenses)	1,563	—
Amortisation of prepaid lease payments	—	49
Depreciation	251	1,450
Total staff costs (including directors' emoluments)	<u><u>7,364</u></u>	<u><u>1,648</u></u>

## 6. DISCONTINUED OPERATIONS

- (a) On 22 November 2009, the directors resolved to cease the bleaching and dyeing, and knitting businesses and these businesses were substantially ceased in December 2009 and completely ceased in September 2010. The results of the discontinued operations included in the condensed consolidated statement of comprehensive income are set out below.

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2010</b>	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the period from discontinued operations		
Revenue from		
Bleaching and dyeing		
– sales of goods	<b>89</b>	12,910
– service income	—	2,090
	<u>89</u>	<u>15,000</u>
Knitting services	—	223
	<u>89</u>	15,223
Cost of sales and services	<b>(138)</b>	<b>(17,778)</b>
Gross loss	<b>(49)</b>	<b>(2,555)</b>
Gain on disposal of assets held for sale	<b>1,444</b>	—
Other income	<b>116</b>	338
Distribution and selling expenses	—	(133)
Administrative expenses	<b>(1,223)</b>	<b>(2,895)</b>
(Allowance for) write-back of allowance for doubtful debts	<b>(1)</b>	57
Impairment loss recognised in respect of property, plant and equipment	—	<b>(5,338)</b>
Profit (loss) before taxation	<b>287</b>	<b>(10,526)</b>
Taxation	—	<b>(425)</b>
Profit (loss) for the period from discontinued operations	<b>287</b>	<b>(10,951)</b>
Profit (loss) for the period from discontinued operations includes the following:		
Total staff costs, including retirement benefits costs	<b>117</b>	2,823
Amortisation of prepaid lease payments	—	391
Depreciation	<b>58</b>	712
Interest income	<b>(10)</b>	<b>(12)</b>

The major class of assets of the bleaching and dyeing, and knitting operations as at 30 September 2010, which has been presented separately in the condensed consolidated statement of financial position, is as follows:

	<b>30 September 2010 HK\$'000</b>	31 March 2010 HK\$'000
Property, plant and equipment, being assets classified as held for sale	<u>222</u>	<u>217</u>

- (b) On 1 March 2010, the Group entered into an agreement (the “Agreement”) with the People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the People's Republic of China (the “PRC”) (the “Zhili Town Government”) for the disposal of three parcels of land in Zhili Town (the “Repurchased Lands”). The Repurchased Lands were acquired several years ago as part of the Huzhou Project. The Huzhou Project refers to a project approved by the shareholders in March 2005 involving the acquisition of land of about 670 mu in the Huzhou City and the development of manufacturing operations for bleaching and dyeing and knitting service businesses. Details of the Huzhou Project and its further development are set out in the circular of the Company dated 21 February 2005 and various subsequent announcements. The Huzhou Project was considered to be no longer viable during the year ended 31 March 2010 and the Group stopped further investment in the Huzhou Project.

Cost of acquiring the Repurchased Lands and the related expenditure were included in “prepaid lease payments” and grouped in “assets classified as held for sale” at 31 March 2010. The carrying value of the Repurchased Lands at the end of the reporting period, which has been presented separately in the condensed consolidated statement of financial position, was as follows:

	30 September 2010 HK\$'000	31 March 2010 HK\$'000
Prepaid lease payments, being assets classified as held for sale	<u>37,360</u>	<u>36,617</u>

According to the Agreement, the Zhili Town Government also agreed to refund to the Group the deposit sum of RMB15,808,000 (equivalent to HK\$18,332,000) for the deposit paid to construct a sewage treatment system together with a sum of RMB7,552,000 (equivalent to HK\$8,654,000) to compensate the Group for interest on this deposit. The Zhili Town Government also agreed to pay compensation of RMB5,600,000 (equivalent to HK\$6,417,000) to the Group to compensate the expenses incurred in the Huzhou Project.

The aggregate consideration receivable by the Group under the Agreement amounted to RMB76,478,000 (equivalent to HK\$88,690,000). At 30 September 2010, an aggregate sum of RMB15,000,000 (equivalent to HK\$17,395,000) was received from the Zhili Town Government, which was included in "Deposit received for disposal of the Repurchased Lands" and grouped in "trade and other payable" in the condensed consolidated financial position (see note 10). As announced by the Company on 22 September 2010, the Group agreed to extend the deadline for the final settlement of the remaining consideration of the sale of the Repurchased Lands and the receivables explained in the previous paragraph to 28 February 2011.

## 7. BASIC EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations:

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

	<b>Six months ended 30 September</b>	
	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit (loss) for the purpose of basic earnings (loss) per share	<u>15,880</u>	<u>(15,967)</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>367,124,450</u>	<u>80,958,284</u>

From continuing operations:

The calculation of the basic earnings (loss) per share from continuing operations attributable to owners of the Company is based on the following data:

Profit (loss) figures are calculated as follows:

	<b>Six months ended 30 September</b>	
	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit (loss) for the period attributable to owners of the Company	<b>15,880</b>	(15,967)
Less: (Profit) loss for the period from discontinued operation	<u>(287)</u>	<u>10,951</u>
Profit (loss) for the purpose of basic earnings (loss) per share from continuing operations	<u>15,593</u>	<u>(5,016)</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>367,124,450</u>	<u>80,958,284</u>

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.

From discontinued operations:

Basic earnings per share from discontinued operations is HK\$0.001 per share (basis loss per share for six months ended 30 September 2009: HK\$0.135 per share), based on the profit for the period from discontinued operations of HK\$287,000 (loss for the period from discontinued operations for six months ended 30 September 2009: HK\$10,951,000) and the denominators detailed above for basic earnings (loss) per share from continuing and discontinued operations.

## 8. 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:

	<b>30 September</b>	31 March
	<b>2010</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	<b>46,997</b>	6,417
61 - 90 days	<b>1,310</b>	929
Over 90 days	<b>1,752</b>	6,673
	<hr/>	<hr/>
Trade receivables	<b>50,059</b>	14,019
Prepayments	<b>631</b>	449
Deposits for suppliers	<b>4,708</b>	—
Refundable deposit in respect of construction of property, plant and equipment under the Huzhou Project	<b>18,332</b>	17,967
Other receivables	<b>5,816</b>	537
	<hr/>	<hr/>
	<b>79,546</b>	32,972
	<hr/> <hr/>	<hr/> <hr/>

## 9. BILLS RECEIVABLE

At 31 March 2010, the bills receivable were aged within 90 days.

## 10. TRADE AND OTHER PAYABLES

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

	<b>30 September</b>	31 March
	<b>2010</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	<b>25,759</b>	18,861
61 - 90 days	<b>3</b>	11
Over 90 days	<b>152</b>	228
	<hr/>	<hr/>
Trade payables	<b>25,914</b>	19,100
Rental deposits received	<b>1,330</b>	1,214
Accruals	<b>9,007</b>	8,187
Deposit received for disposal of the Repurchased Lands	<b>17,395</b>	3,410
Other payables	<b>1,758</b>	1,944
	<hr/>	<hr/>
	<b>55,404</b>	33,855
	<hr/> <hr/>	<hr/> <hr/>

## 11. BILLS PAYABLE

The bills payable are aged 30 days at the end of the reporting period.

## **INTERIM DIVIDEND**

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2010 (six months ended 30 September 2009: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Results**

During the six month ended 30 September 2010, the Group recorded a turnover of approximately HK\$201,104,000, which comprised approximately HK\$198,552,000 from the garment sourcing and exporting business acquired in March 2010 and approximately HK\$2,552,000 from the property investment business acquired in September 2009. For the same period last year, the Group recorded half month turnover of approximately HK\$122,000 from the segment of property investment.

Cost of sales for the garment sourcing and exporting business was approximately HK\$178,300,000. There was no comparative cost of sales figure for the garment sourcing and exporting business for the last corresponding period, as the Group did not own the business during that period. Gross profit for garment sourcing and exporting business amounted to approximately HK\$20,252,000. The Group's total operating expenses for the six months ended 30 September 2010 was approximately HK\$18,631,000 as compared to the same period last year of approximately HK\$6,021,000. The increase was attributable to the expenses incurred by the newly acquired garment sourcing and exporting business.

During the six months period ended 30 September 2010, the Group recorded a turnover of approximately HK\$89,000 from the discontinued businesses of bleaching, dyeing and knitting (six months ended 30 September 2009: approximately HK\$15,223,000). The related cost of sales amounted to approximately HK\$138,000 (six months ended 30 September 2009: approximately HK\$17,778,000). Gross loss amounted to approximately HK\$49,000 (six months ended 30 September 2009: gross loss of approximately HK\$2,555,000). Total operating expenses amounted to approximately HK\$1,223,000 (six months ended 30 September 2009: approximately HK\$3,028,000). The Group also recorded a gain on disposal of assets held for sale from discontinued businesses for approximately HK\$1,444,000.

Profit attributable to shareholders was approximately HK\$15,880,000 as compared to loss attributable to shareholders of approximately HK\$15,967,000 for the corresponding period last year. The turnaround was mainly attributable to (i) the Group ceased its bleaching, dyeing and knitting businesses in November 2009 to prevent further losses; (ii) the Group recorded profit from its newly acquired garment sourcing and exporting business; (iii) the gain arising on changes in fair value of investment properties of approximately HK\$12,618,000; and (iv) the gain on fair value changes of investments held for trading of approximately HK\$361,000. Earnings per share for the period from continuing and discontinued operations was approximately HK cents 4.3 (six months ended 30 September 2009: loss of approximately HK cents 19.7).

No finance cost was incurred for the six months ended 30 September 2010 as there was no bank borrowing during the period under review.

### **Business Review**

During the six months ended 30 September 2010, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women and property investment.

### **Garment Sourcing and Exporting**

The Group acquired this business segment from the subsidiaries of Easyknit International Holdings Limited in March 2010. During the period under review, turnover from this segment amounted to approximately HK\$198,552,000 (six months ended 30 September 2009: nil). It constituted an approximately 98.7% of the Group's turnover. Profit gained from this segment was approximately HK\$4,660,000. The product mix of infants wear and ladies wear for the six month ended 30 September 2010 was 35.8 : 33.6 . The largest customer of this business segment represented almost 86.1% of the garment sourcing and exporting turnover for the period under review.

## **Property Investment**

During the six months ended 30 September 2010, rental generated from the two properties of the Group located at Ground and Cockloft Floor, No. 13 Matheson Street, Hong Kong and Ground Floor, No. 148 Johnston Road, Hong Kong was approximately HK\$1,680,000. As the two properties were acquired in the middle of September 2009, only half month rental of approximately HK\$122,000 was recorded for the six months ended 30 September 2009. As a result of change in the original investment plan in Huzhou, the PRC (for details, please refer to the Company's announcements dated 24 February 2009 and 1 March 2010 for the reasons of change), the Board decided to increase revenue by leasing out the Huzhou's factory premises to local manufacturers. During the six months ended 30 September 2010, the Group recorded rental of approximately HK\$872,000 from the leasing of the Huzhou's factory premises (six months ended 30 September 2009 : nil). The market values of the Group's two investment properties in Hong Kong as at 30 September 2010 were revalued by professional valuer at approximately HK\$108,000,000, an increase of approximately HK\$9,000,000 as compared to the value on 31 March 2010. The value of the Huzhou factory premises were valued at approximately HK\$163,168,000, an increase of approximately HK\$7,005,000 as compared to the value on 31 March 2010.

## **Development on the Huzhou Project**

Two blocks of factory premises and four blocks of workers' quarters have been completed on the land for garment manufacturing operation in Huzhou. An announcement was published by the Company on 24 February 2009 concerning the Group having been advised by the Zhili Town Government of the PRC by a letter dated 6 February 2009 that the plans for the Huzhou Project had to be changed due to deterioration of the environment along the Taihu Lake area in the recent two years. The Zhili Town Government had agreed to repurchase the land for knitting, bleaching and dyeing operations of the Huzhou Project at a profit to the Group and also to repay the refundable deposit to the Group.

As announced by the Company on 1 March 2010, two wholly-owned subsidiaries of the Group, as the sellers, have entered into sale and purchase agreement with the Zhili Town Government, as the purchaser, for the disposal of the three pieces of land forming part of the site of an aggregate area of approximately 303 mu (equivalent to approximately 202,000 sq. m.) situated at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC and the South of Hengtang Harbour, PRC. The two disposals were approved by the shareholders of the Company at a special general meeting held on 23 April 2010. Details of the two disposals were set out in the Company's circular dated 31 March 2010. The Zhili Town Government has now paid RMB15,000,000 and has undertaken to pay the balance before 28 February 2011.

## **Discontinued businesses**

During the period, the Group ceased the bleaching, dyeing and knitting businesses and sold all its manufacturing equipment. All outstanding orders were fulfilled by subcontracting out to third party manufacturers. The cessation helps to improve the Group's financial position and enables the Group to focus on more profitable businesses.

## **Geographical Analysis of Turnover**

During the period, the turnover from the garment sourcing and exporting business was mainly derived from customers in the United States of America (the "US"). Rental income from investment properties were derived from properties located in Hong Kong and PRC.

## **Event after the publication of Profit Warning Announcement**

On 5 November 2010, the Company published a profit warning announcement to advise shareholders that the interim results of the Group for the six months ended 30 September 2010 were expected to record a profit due to, among others, compensation from the Zhili Town Government for failure to implement the Huzhou Project as planned and profit on disposal of lands in Huzhou. However, having discussed with the Company's auditors, the Board decided to remove the above two profits from the original draft interim results in the Board meeting held on 19 November 2010. The Board considered that it would be more appropriate to record the above two profits after receipt of all the money from the Zhili Town Government. The Board is confident that the money will be received by or on 28 February 2011.

## **Prospects**

The Board has ceased its knitting, bleaching and dyeing manufacturing operations and changed to garment sourcing and exporting and investment in real properties businesses.

As regard to the Huzhou Project, the Board together with the Zhili Town Government is looking at other options for the use of the land marked for garment manufacturing operation. As the first step, the Zhili Town Government has agreed that the Group can finish the building of two factory blocks for leasing purposes.

The Group's major market for the garment sourcing and exporting businesses will remain focus on the US and Europe, which are relatively mature and where the customers demand in the long run is expected to be relatively stable notwithstanding any short term fluctuation. The Board will continue to keep its focus in the trading of garments, areas in which the Group has expertise. The Board will strengthen the business relationship with existing customers and look for opportunity to expand its customer base.

The local property market has been rising in the past year. This reflects Hong Kong remains as one of the most attractive markets for property investment. The Board will keep the two properties for investment purpose and constantly look for other opportunities to maximise shareholders' return.

## **Liquidity and Financial Resources**

During the six months ended 30 September 2010, the Group financed its operations mainly by internally generated resources. Shareholders' funds of the Group as at 30 September 2010 was approximately HK\$509,856,000 (31 March 2010: approximately HK\$489,983,000). As the Group had no bank borrowings as at 30 September 2010, no gearing ratio of the Group was presented (31 March 2010: nil).

The Group continued to sustain a liquidity position. As at 30 September 2010, the Group had net current assets of approximately HK\$195,595,000 (31 March 2010: approximately HK\$187,649,000) and cash and cash equivalents of approximately HK\$136,530,000 (31 March 2010: approximately HK\$127,912,000). The Group's cash and cash equivalents are mainly denominated in US dollars, Hong Kong dollars and Renminbi. As at 30 September 2010, the Group's current ratio was approximately 4.0 (31 March 2010: approximately 5.6), which was calculated on the basis of current assets of approximately HK\$261,652,000 (31 March 2010: approximately HK\$228,214,000) to current liabilities of approximately HK\$66,057,000 (31 March 2010: approximately HK\$40,565,000). During the period under review, the Group serviced its debts mainly through internally generated resources.

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

## **Exposure to Fluctuations in Exchange Rates and Related Hedges**

Most of the Group's revenues and payments are in US dollars, 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. The directors considered the risk of exposure to currency fluctuations to be minimal.

## **Capital Structure**

The Group had no debt securities or other capital instruments as at 30 September 2010 and up to the date of this announcement.

## **Material Acquisitions and Disposals**

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2010.

## **Charges on Group Assets**

The Group did not have any charges on assets as at 30 September 2010 (six months ended 30 September 2009: pledged deposit of HK\$10,000,000).

### **Capital Expenditure and Capital Commitments**

During the six months ended 30 September 2010, the Group spent approximately HK\$3,000 on acquisition of property, plant and equipment (six months ended 30 September 2009: approximately HK\$1,030,000).

As at 30 September 2010, the Group had capital commitments in respect of capital expenditure contracted for but not provided of approximately HK\$1,760,000 (31 March 2010: approximately HK\$2,142,000).

### **Contingent Liabilities**

The Group did not have any significant contingent liabilities as at 30 September 2010 (31 March 2010: nil).

### **Significant Investment**

Apart from the Huzhou Project, the Group did not have any significant investment held as at 30 September 2010.

### **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 2010, the Group employed approximately 40 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including directors' emoluments) amounted to approximately HK\$7,481,000 for the period under review (six months ended 30 September 2009: approximately HK\$4,471,000). 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 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 2010.

## **EXECUTIVE COMMITTEE**

The Executive Committee currently comprises all the executive directors of the Company, namely Mr. Kwong Jimmy Cheung Tim (Committee Chairman), Ms. Lui Yuk Chu and Ms. Koon Ho Yan, Candy. 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 2010.

## **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 2010, 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 deviations are set out on page 11 of the Company’s annual report for the financial year ended 31 March 2010.

## **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 2010.

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

Hong Kong, 19 November 2010

*As at the date of this announcement, the Board comprises Mr. Kwong Jimmy Cheung Tim, Ms. Lui Yuk Chu and Ms. Koon Ho Yan, Candy 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.*

\* *For identification only*