

The board of directors of Easyknit International Holdings Limited (the “Company”) is pleased to present the unaudited condensed financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2002 together with comparative figures. These interim financial statements have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

		Six months ended	
		30 September	
	<i>NOTES</i>	2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	3	325,415	338,691
Cost of sales		(250,235)	(284,823)
Gross profit		75,180	53,868
Other operating income		1,219	2,595
Distribution costs		(12,726)	(11,165)
Administrative expenses		(24,248)	(20,094)
Write-off of bad debts		(4,737)	—
Profit from operations	3 & 4	34,688	25,204
Income on release of guarantee	5	5,000	—
Unrealised loss on other investments	6	(36,054)	(40,597)
Loss on disposal of other investments	7	(21,438)	—
Finance costs	8	(5,322)	(11,221)
Loss before taxation		(23,126)	(26,614)
Taxation	9	(3,769)	(2,274)
Loss before minority interests		(26,895)	(28,888)
Minority interests		1,188	133
Net loss for the period		(25,707)	(28,755)
Basic loss per share	10	(7.88) cents	(34.28) cents

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2002**

	<i>NOTES</i>	30 September 2002 <i>HK\$'000</i> <i>(Unaudited)</i>	31 March 2002 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	11	173,577	106,106
Investment properties	12	358,181	328,230
Permanent textile quota entitlements		2,857	3,762
Club debenture		741	741
		<u>535,356</u>	<u>438,839</u>
Current assets			
Other investments	13	49,495	125,849
Inventories		3,024	9,662
Trade and other receivables	14	213,594	175,654
Bills receivable		15,133	40,070
Bank balances and cash		15,088	55,770
		<u>296,334</u>	<u>407,005</u>
Current liabilities			
Trade and other payables	15	51,976	67,694
Bills payable		865	3,071
Taxation payable		10,553	9,790
Obligations under finance leases			
- amount due within one year		19	19
Secured borrowings			
- amount due within one year		71,327	90,575
		<u>134,740</u>	<u>171,149</u>
Net current assets		<u>161,594</u>	<u>235,856</u>
		<u>696,950</u>	<u>674,695</u>
Capital and reserves			
Share capital	16	88,245	22,061
Reserves		437,618	450,086
		<u>525,863</u>	<u>472,147</u>
Minority interests		<u>(536)</u>	<u>(705)</u>
Non-current liabilities			
Obligations under finance leases			
- amount due after one year		48	58
Secured borrowings			
- amount due after one year		171,575	203,195
		<u>171,623</u>	<u>203,253</u>
		<u>696,950</u>	<u>674,695</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002**

	Share capital	Share premium	Capital reserve	Property revaluation reserve	Special reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2001	73,537	1,008,300	796,656	7,862	9,800	(1,550,141)	346,014
Rights issue of shares at a price of HK\$0.15 per rights share	36,769	18,384	—	—	—	—	55,153
Arising on reduction of share capital	(99,276)	—	99,276	—	—	—	—
Rights issue of shares at a price of HK\$0.08 per rights share	11,031	77,210	—	—	—	—	88,241
Impairment loss recognised	—	—	—	(7,862)	—	—	(7,862)
Net loss for the year	—	—	—	—	—	(9,399)	(9,399)
	<u>22,061</u>	<u>1,103,894</u>	<u>895,932</u>	<u>—</u>	<u>9,800</u>	<u>(1,559,540)</u>	<u>472,147</u>
Balance at 31 March 2002	22,061	1,103,894	895,932	—	9,800	(1,559,540)	472,147
Rights issue of shares at a price of HK\$0.12 per rights share	66,184	13,239	—	—	—	—	79,423
Net loss for the period	—	—	—	—	—	(25,707)	(25,707)
	<u>88,245</u>	<u>1,117,133</u>	<u>895,932</u>	<u>—</u>	<u>9,800</u>	<u>(1,585,247)</u>	<u>525,863</u>
Balance at 30 September 2002	<u>88,245</u>	<u>1,117,133</u>	<u>895,932</u>	<u>—</u>	<u>9,800</u>	<u>(1,585,247)</u>	<u>525,863</u>
Balance at 1 April 2001	73,537	1,008,300	796,656	7,862	9,800	(1,550,141)	346,014
Rights issue of shares at a price of HK\$0.15 per rights share	36,769	18,384	—	—	—	—	55,153
Net loss for the period	—	—	—	—	—	(28,755)	(28,755)
	<u>110,306</u>	<u>1,026,684</u>	<u>796,656</u>	<u>7,862</u>	<u>9,800</u>	<u>(1,578,896)</u>	<u>372,412</u>
Balance at 30 September 2001	<u>110,306</u>	<u>1,026,684</u>	<u>796,656</u>	<u>7,862</u>	<u>9,800</u>	<u>(1,578,896)</u>	<u>372,412</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002**

	Six months ended	
	30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>(Restated)</i>
Net cash from (used in) operating activities	9,941	(37,696)
Net cash (used in) from investing activities	(68,389)	3,350
Net cash from financing activities	17,766	55,142
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(40,682)	20,796
Cash and cash equivalents at beginning of the period	55,770	39,531
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Cash and cash equivalents at end of the period	15,088	60,327
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The principal accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2002 except as described below.

In the current period, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The new and revised SSAPs resulted in revised presentation in the cash flow statement and introduced the statement of changes in equity in place of the statement of recognised gains and losses. Comparative amounts for the previous period have been restated in order to achieve a consistent presentation. The adoption of these new and revised SSAPs has no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

6. UNREALISED LOSS ON OTHER INVESTMENTS

The amount represents unrealised loss on revaluation of other investments, being shares of 21CN CyberNet Corporation Limited ("21CN") to fair value at the reporting date. (see also note 13(e)).

7. LOSS ON DISPOSAL OF OTHER INVESTMENTS

The amount represents loss on disposal of other investments, being shares of 21CN, to an outside party during the current period. (see also note 13(e)).

8. FINANCE COSTS

The amount represents interest on borrowings wholly repayable within five years.

9. TAXATION

The amount represents provision for Hong Kong Profits Tax calculated at the rate of 16% (six months ended 30 September 2001: 16%) of the estimated assessable profit for the period.

10. LOSS PER SHARE

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

	Six months ended 30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss		
Loss for the purposes of basic loss per share	(25,707)	(28,755)
	<u> </u>	<u> </u>
	Six months ended 30 September	
	2002	2001
Number of shares		
Weighted average number of shares for the purposes of basic loss per share	326,226,901	83,891,327
	<u> </u>	<u> </u>

The denominators for the purposes of calculating basic loss per share have been adjusted to reflect the rights issue in September 2002 and the consolidation of shares in August 2002 on the basis that 10 shares were consolidated into 1 share.

No diluted loss per share has been presented for the current period as the exercise price of the options was higher than the average market price for shares. Thus no exercise of the Company's outstanding share options is assumed.

No diluted loss per share has been presented for the previous period as the exercise of the Company's outstanding share options would reduce the loss per share of that period.

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$69,376,000 (six months ended 30 September 2001: HK\$1,731,000) on acquisition of property, plant and equipment, including HK\$60,000,000 (six months ended 30 September 2001: nil) for land premium on the properties under development.

12. INVESTMENT PROPERTIES

During the period, the Group acquired investment properties amounting to HK\$29,951,000 (six months ended 30 September 2001: nil). In the opinion of the directors of the Company, there is no significant change of value of the Group's other investment properties since the last professional valuation at 31 March 2002.

13. OTHER INVESTMENTS

	30 September 2002	31 March 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong — 21CN		
- at quoted market price	23,100	125,849
- at an agreed selling price (see note 13(e))	26,395	—
	<u>49,495</u>	<u>125,849</u>
At market value	<u>63,748</u>	<u>125,849</u>

21CN is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange. 21CN and its subsidiaries (collectively "21CN Group") is principally engaged in telecommunications, media and Internet business activities.

- (a) At 30 September 2002, the Group holds 275,965,700 shares (31.3.2002: 405,965,700 shares (including 211,579,420 shares mentioned in note (c) below)) of 21CN representing approximately 8.88% (31.3.2002: 13.27%) of the issued ordinary shares of HK\$0.01 each in the capital of 21CN.
- (b) As announced by the Company on 17 February 2000, the Company entered into a conditional agreement dated 7 February 2000, as amended by a supplemental agreement dated 14 February 2000, with 21CN and two outside parties (the "Subscribers") relating to the subscription by the Subscribers for 2,297,377,680 new shares in the capital of 21CN (the "Subscription Agreement"). Completion of the subscription ("Completion") took place on 15 May 2000 and the Group's interest in 21CN was reduced from approximately 62.7% (after placement of shares of 21CN by the Group) to approximately 13.8% of 21CN's then issued capital as enlarged by the subscription. The Group's remaining investment in 21CN is classified as other investments and is carried at fair value at the reporting date.

The Company has undertaken with the Subscribers that out of the 485,965,700 shares of 21CN held by the Group as at the date of the Subscription Agreement, it shall dispose of 291,579,420 shares (including 80,000,000 shares sold through the placing arrangement completed in March 2000) in the issued capital of 21CN, representing approximately 9.9% of 21CN's then enlarged share capital, during the one-year period after Completion and deposit the sale proceeds, save for those arising from the placing arrangement, up to a maximum of HK\$50 million with the escrow agent. When the amount standing to the credit of the escrow account reaches HK\$50 million, the obligation on the Company to dispose of shares of 21CN shall cease (see note (c) below).

The Company further warrants that the aggregate gross proceeds of properties of 21CN Group as at 31 March 2000 (if successfully disposed of) and the market value (as appraised by an independent valuer approved by the escrow agent) of those properties that have not been disposed of within three years from Completion on 15 May 2000 shall not be less than HK\$200 million (the "Warranty"). The Subscribers shall be entitled to be compensated for any shortfall out of the sale proceeds of shares of 21CN deposited with the escrow agent described above, on a dollar to dollar basis, which is limited to the amount that has been deposited with the escrow agent.

Details of the above are set out, inter alia, in the circulars of the Company dated 10 March 2000 (and approved by the shareholders at a special general meeting of the Company held on 27 March 2000) and 5 June 2001.

On 12 September 2002, all liabilities and obligations under the Warranty were released.

13. OTHER INVESTMENTS (Cont'd)

- (c) As announced by the Company on 15 May 2001, the Company entered into an agreement (the "Sale Shares Agreement") on that day with Best Quarter Investments Limited ("Best Quarter") and Chan Chin Yuen ("Mr. Chan") to dispose of 211,579,420 shares of HK\$0.01 each in the issued share capital of 21CN (the "Sale Shares") held by a wholly-owned subsidiary of the Company for a consideration of HK\$88,863,356.40 of which HK\$5,000,000 was paid before the date of completion and the balance of HK\$83,863,356.40 shall be paid on 15 May 2002. Best Quarter is a company incorporated in the British Virgin Islands and Mr. Chan was the registered and beneficial owner of the entire issued share capital of Best Quarter. Best Quarter was and Mr. Chan is independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules. The consideration was determined with reference to the then market value of shares of 21CN. As at the closing of trading on 15 May 2001, the closing market price of shares of 21CN as quoted on the Stock Exchange was HK\$0.42 per share, which is equivalent to the purchase price per share of the Sale Shares. Best Quarter agreed that within twelve months from the date of completion of the Sale Shares Agreement, it shall not dispose of any of the Sale Shares or any interest or charge or create or allow to exist any interest in or encumbrance over the interests of Best Quarter and of the Company under the Sale Shares save for mortgage on the Sale Shares as mentioned below. Mr. Chan agreed to guarantee the performance of Best Quarter's obligations in the Sale Shares Agreement. Completion of the Sale Shares Agreement took place on 1 June 2001.

On 1 June 2001, the Company and Best Quarter signed a deed of mortgage and assignment, pursuant to which the Sale Shares were held by the Company through a wholly-owned subsidiary as security for the payment by Best Quarter of the balance of the consideration for the Sale Shares.

Also on 1 June 2001, the Company and Mr. Chan signed a deed of mortgage and assignment, pursuant to which the entire issued capital of 1 share of US\$1.00 of Best Quarter was charged to the Company as security for the payment by Best Quarter of the balance of the consideration for the Sale Shares.

Also on 1 June 2001, the Company and Mr. Chan entered into a call option agreement, under which the Company was granted a call option to purchase all but not some of the issued share capital of Best Quarter. The exercise price of the option shall be HK\$95,210,739. This option is exercisable at any time from the date of the call option agreement to 15 May 2002.

The Company entered into the Sale Shares Agreement for the disposal of the Sale Shares for the purpose of complying with its obligations under the Subscription Agreement referred to in (b) above. Following completion of the Sale Shares Agreement on 1 June 2001, the Company has no further obligation under the Subscription Agreement to dispose of its remaining interest in shares of 21CN. The Sale Shares represented approximately 6.92% of the then issued share capital of 21CN. Disposal of the Sale Shares shall be recognised by the Group when the call option to acquire Best Quarter, purchaser of the Sale Shares, lapses on 15 May 2002 and the Group's interest in 21CN would then be reduced from approximately 13.27% to 6.35% (based on 21CN's then capital structure). HK\$5,000,000, being a portion of the consideration for the Sale Shares, received by the Group was therefore shown as deposit received (included in trade and other payables) under current liabilities in the consolidated balance sheet at 31 March 2002.

Details of the above are set out, inter alia, in the circular of the Company dated 5 June 2001.

13. OTHER INVESTMENTS (Cont'd)

- (d) As announced by the Company on 7 June 2002, the Company was not paid the remaining consideration of HK\$83,863,356.40 referred to in (c) above on 15 May 2002 by Best Quarter. Pursuant to the Sale Shares Agreement, the Company, after considering the options available, entered into an agreement with Mr. Chan dated 22 May 2002 to acquire from Mr. Chan 1 share of US\$1.00 of Best Quarter, being the entire issued share capital of Best Quarter, and the shareholder loan of HK\$5,000,000 owing by Best Quarter to Mr. Chan. The aggregate consideration amounted to HK\$5,000,008 which shall not be paid in cash but shall instead be satisfied by the delivery to Mr. Chan of a letter under seal from the Company unconditionally releasing the guarantee formerly given by Mr. Chan under the Sale Shares Agreement, which was credited to the income statement (see note 5).

Completion of the above agreement took place on 14 June 2002 following which Best Quarter became a wholly-owned subsidiary of the Company. Disposal of the Sale Shares was therefore not recognised and the Group continued to hold 405,965,700 shares of 21CN.

Details of the above are set out, inter alia, in the circular of the Company dated 28 June 2002.

- (e) As announced by the Company on 12 September 2002, the Company entered into an agreement (the "2002 Sale Shares Agreement") on that day with an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules to dispose of an aggregate of 305,965,700 shares of HK\$0.01 each in the issued capital of 21CN (the "2002 Sale Shares") for an aggregate cash consideration of HK\$45,894,855. Pursuant to the 2002 Sale Shares Agreement, completion shall take place in two tranches. At 30 September 2002, completion of the first tranche of the 2002 Sale Shares has taken place and a loss on disposal amounting to HK\$21,438,000 was recognised in the condensed consolidated income statement in the current period (see note 7). The portion of the second tranche of the 2002 Sale Shares were stated at their average unit selling price as set out in the 2002 Sale Shares Agreement whereas the remaining 100,000,000 shares of 21CN not forming part of the 2002 Sale Shares ("Remaining Shares") were stated at quoted market price. An aggregate unrealised loss of HK\$36,054,000 was recognised in the condensed consolidated income statement in the current period (see note 6). Completion of the second tranche of the 2002 Sale Shares took place in November 2002 and the Group's interest in 21CN was further reduced to approximately 3.22% (based on 21CN's then capital structure).

The Company has undertaken with the purchaser not to dispose of (i) 30,000,000 Remaining Shares within six months from the date of the 2002 Sale Shares Agreement; and (ii) the balance of 70,000,000 Remaining Shares within twelve months from the date of the 2002 Sale Shares Agreement. The Remaining Shares are deposited with an escrow agent until the respective dates of release.

14. TRADE AND OTHER RECEIVABLES

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

	30 September 2002 <i>HK\$'000</i>	31 March 2002 <i>HK\$'000</i>
0 - 60 days	88,248	106,085
61 - 90 days	5,112	2,214
Over 90 days	95,367	46,135
	<u>188,727</u>	<u>154,434</u>

15. TRADE AND OTHER PAYABLES

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

	30 September 2002 <i>HK\$'000</i>	31 March 2002 <i>HK\$'000</i>
0 - 60 days	32,433	37,452
61 - 90 days	1,696	2,375
Over 90 days	3,610	3,075
	<u>37,739</u>	<u>42,902</u>

16. SHARE CAPITAL

	Nominal value per share <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:			
At 1 April 2002	0.01	300,000,000,000	3,000,000
On consolidation of shares		<u>(270,000,000,000)</u>	<u>—</u>
At 30 September 2002	0.10	<u>30,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid:			
At 1 April 2002	0.01	2,206,122,318	22,061
On consolidation of shares for every ten issued shares into one consolidated share		<u>(1,985,510,087)</u>	<u>—</u>
	0.10	220,612,231	22,061
Rights issue of shares at a price of HK\$0.12 per rights share	0.10	<u>661,836,693</u>	<u>66,184</u>
At 30 September 2002	0.10	<u>882,448,924</u>	<u>88,245</u>

17. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

During the period, the Group had the following transactions carried out at prices determined by reference to market prices for similar transactions with related parties/persons deemed to be "connected persons" by the Stock Exchange, being entities controlled by certain relatives of Koon Wing Yee and his spouse Lui Yuk Chu, both of whom are directors of the Company:

	Six months ended	
	30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of garments	1,379	3,849
Purchases of garments	121,543	97,065
Bleaching and dyeing charges received	2,415	—
	<u>2,415</u>	<u>—</u>

At 30 September 2002, deposits paid to these entities which are included in trade receivables amounted to HK\$82,004,000 (31.3.2002: HK\$57,734,000).

The Group also made advances to one of these entities which bear interest at 6.125% per annum and are repayable within one year. At 30 September 2002, the aggregate principal sum and the accrued interest owed to the Group amounted to HK\$9,950,000 (31.3.2002: nil) and HK\$214,000 (31.3.2002: nil) respectively. Interest income earned during the period amounted to HK\$214,000 (six months ended 30 September 2001: HK\$80,000).

The Group, its principal shareholders and directors of the Company neither control these entities, nor, other than having significant business transactions with these entities, exercise significant influence over these entities in making financial and operating decisions.

18. CONTINGENT LIABILITIES

	30 September	31 March
	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	4,353	12,513
	<u>4,353</u>	<u>12,513</u>

The Hong Kong Inland Revenue Department is revisiting the offshore income tax claims by a wholly-owned subsidiary of the Company and has, up to 30 September 2002, raised demand notes in an aggregate sum of HK\$24,169,289 in respect of the additional assessable profits for the two years ended 31 March 1997 and of the assessable profits for the year ended 31 March 1998. The Group lodged objections for these assessments. However, the then Acting Commissioner of the Hong Kong Inland Revenue (the "Commissioner") delivered the determination which confirms the above assessments and the Group's objections fail. The Group lodged a Notice of Appeal to the Board of Review against the determination of the Commissioner. The Group will continue to defend its offshore income tax claims. Determination of the Board of Review is expected to be delivered in January 2003. The directors of the Company, after taking professional advices, are of the opinion that the Group has been eligible for such offshore tax claims and accordingly, no provision for the tax demanded amounting to HK\$24,169,289 (31.3.2002: HK\$24,169,289) has been made in the condensed financial statements.

Details of the warranty provided by the Company regarding gross proceeds and market value of properties of 21CN Group held as at 31 March 2000 within three years from Completion on 15 May 2000 are described in note 13 (b). All liabilities and obligations under the Warranty were released on 12 September 2002.

19. CAPITAL COMMITMENTS

	30 September 2002 <i>HK\$'000</i>	31 March 2002 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
- development of properties	30,962	40,532
- acquisition of other property, plant and equipment	<u>14</u>	<u>35</u>
	30,976	40,567
Capital expenditure authorised but not contracted for in respect of development of properties	<u>—</u>	<u>60,000</u>
	<u>30,976</u>	<u>100,567</u>

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results

For the six months ended 30 September 2002, turnover of the Group was HK\$325,415,000, representing a decrease of about 3.9% compared to HK\$338,691,000 for the same period last year. Profit from operations amounted to HK\$34,688,000, significantly up about 37.6% of corresponding six months last year. Loss per share was 7.88 HK cents (2001: loss per share 34.28 HK cents).

During the period, the Group recorded an unrealised loss on other investments of HK\$36,054,000 and a loss on disposal of other investments of HK\$21,438,000. Other investments represent the Group's investments in the shares of 21CN CyberNet Corporation Limited ("21CN"). As a result, though profit from operations was higher than the corresponding period last year, the Group has net loss for the period of HK\$25,707,000.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Business Review

The principal business activities of the Group are sourcing and export of cotton-based knitted garments for women, children and infants, property investment and garment bleaching and dyeing. For the six months ended 30 September 2002, the Group continues its principal operation in the garment sourcing and export, turnover from this business segment contributes 94.4% of the Group's total turnover and amounted to HK\$307,264,000, decreased approximately 6.8% from the same period last year. Among the different geographical segments, the US contributed the major portion of the garment operations. Turnover of garment exported to the US was HK\$285,442,000, down approximately 10.5% over last year, and represented around 87.7% of the Group's total turnover.

The newly set-up factory in Dongguan, the People's Republic of China (the "PRC"), started to contribute to the Group's revenue during the period under review. The garment bleaching and dyeing segment contributed 2.8% of the Group's turnover, amounting to HK\$9,018,000.

The Group's regional headquarter in New York facilitated the provision of comprehensive services to the valued overseas customers and handled the garment operations in the US. The set-up enlarged the Group's customer base and captured larger market coverage.

The property market in Hong Kong continued to experience a downturn which has affected the Group's property letting business. The turnover of the segment was HK\$10,705,000, slightly down 0.1% over the same period last year.

Prospects

The PRC's accession to the WTO and the hosting of 2008 Olympic Games represent substantial growth momentum and business opportunity for the Group. The Group will allocate resources to more profitable business segments, especially the garment business, in order to capture a higher profit margin and to increase the contribution to the Group's revenue. The Group is committed to penetrate deeper into different markets and improve the profit margin of the Group's garment business.

The Group plans to further utilise the dyeing factory in Dongguan capitalised on the increased capacity of the factory. Since the garment operation will be the Group's continuing focus, the expansion of the dyeing factory will facilitate the overall performance of the garment business.

On the other hand, the regional headquarter in New York will continue to facilitate the Group's operation in the US. With the enhanced coordination with clients in the US and overseas, the Group is prepared to capture the ample opportunities bring forth. The management will strive to generate promising return to its shareholders and the Group as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Significant Corporate Events

On 22 May 2002, the Company had entered into an agreement with an independent third party (the "Vendor") to acquire 1 share of US\$1.00 representing the entire issued share capital of Best Quarter Investments Limited ("Best Quarter") and the shareholder loan of HK\$5,000,000 owing by Best Quarter to the Vendor.

On 17 July 2002, the Company proposed the share consolidation pursuant to which every 10 issued and unissued existing shares will be consolidated into 1 consolidated share. Immediately following the share consolidation and based on the existing shares in issue, the share capital of the Company will comprise 220,612,231 issued consolidated shares of HK\$0.10 each and 29,779,387,769 unissued consolidated shares of HK\$0.10 each. Upon the share consolidation becoming effective, the Company proposed to raise approximately HK\$79.4 million before expenses (assuming no exercise of options on or before 22 August 2002, the record date) by way of the rights issue of 661,836,693 rights shares at a price of HK\$0.12 per rights share.

Employment, Training, Development and Remuneration Policy

As at 30 September 2002, the number of staff of the Group in the PRC and Hong Kong was about 100 and 60 respectively. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The remuneration policy and package is adjusted according to the human resources market environment. The Group has set up provident retirement benefits, in the form of Mandatory Provident Fund entitlement to Hong Kong's employees. Employees of the subsidiary in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiary is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

Capital Expenditure

During the period under review, the Group had capital expenditure of HK\$69,376,000 mainly for a property development project.

Liquidity and Financial Resources

As at 30 September, 2002, the Group's bank deposits amounted to HK\$15,088,000. Net current assets were HK\$161,594,000.

The Group's gearing ratio at the period ended was 0.5 times (31 March 2002: 0.6 times), which was calculated based on the total borrowings of HK\$242,902,000 (31 March 2002: HK\$293,770,000) and shareholders' funds of HK\$525,863,000 (31 March 2002: HK\$472,147,000).

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

The independent non-executive directors have reviewed the connected transactions (as defined under the Rules Governing the Listing of Securities on the Stock Exchange as set out in note 17 to the condensed financial statements, and confirmed that these transactions had been transacted on normal commercial terms and in the ordinary course of business of the Group.

Save as disclosed above, there was no other contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the period or at any time during the period.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2002, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong's Securities (Disclosure of interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares of the Company held		
	Personal interests	Family interests	Corporate interests
<i>Executive directors:</i>			
Koon Wing Yee	—	324,216,452 (note 1)	—
Lui Yuk Chu	—	—	324,216,452 (note 2)
Tsang Yiu Kai	98,175	—	—
<i>Independent non-executive directors:</i>			
Chan Chi Chung	—	—	—
Wong Sui Wah Michael	—	—	—

Notes:

1. Koon Wing Yee is the husband of Lui Yuk Chu whose corporate interests is also the family interests of Koon Wing Yee.
2. The Magical 2000 Trust, the beneficiaries of which include Lui Yuk Chu and members of her family, beneficially owns the entire issued share capital of Magical Profits Limited, which in turn owns 324,216,452 shares of the Company.

DIRECTORS' INTERESTS IN SHARES (Cont'd)

No director held an interest in the securities of any subsidiaries of the Company or any of its associated corporations as defined in the SDI Ordinance as at 30 September 2002 except for the following:

- (a) certain nominee shares in subsidiaries held in trust for the Group; and
- (b) one non-voting deferred share each in Wellmake Investments Limited, a subsidiary of the Group, held by Koon Wing Yee and Lui Yuk Chu.

Save as disclosed above, at 30 September 2002 none of the directors and chief executives, or their associates, had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme which was approved at the special general meeting of the Company held on 18 February 2002, options were granted to the following directors to subscribe for shares of the Company.

A summary of the movements of the options granted to the directors of the Company during the period is as follows:

Name of director	Date of grant	Exercise price HK\$	Number of share options (adjusted as appropriate)			
			At 1 April 2002	Granted during the period	Adjustments*	At 30 September 2002
Tsang Yiu Kai	19 June 2002	0.067	—	11,030,000	(11,030,000)	—
		0.670*	—	—	1,103,000	—
						(1,103,000)
		0.336*	—	—	4,412,000	4,412,000

* The number of share options and the corresponding exercise price have been adjusted as a result of consolidation and rights issue of shares of the Company during the period.

No share options have been exercised by the directors during the period.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures), of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER

As at 30 September 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the directors, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the period.

AUDIT COMMITTEE

The current members of the audit committee comprised of Chan Chi Chung and Wong Sui Wah Michael. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including review of the unaudited interim condensed financial statements for the six months ended 30 September 2002.

CORPORATE GOVERNANCE

The Company has complied throughout the period ended 30 September 2002 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

By the order of the Board of
Easyknit International Holdings Limited
Koon Wing Yee
President and Chief Executive Officer

Hong Kong, 18 December 2002