

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 2003 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 2003

	NOTES	Six months ended 30 September	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited and as restated)
Turnover	3	352,600	325,415
Cost of sales		(289,997)	(250,235)
Gross profit		62,603	75,180
Other operating income		2,352	1,219
Distribution costs		(15,830)	(12,726)
Administrative expenses		(34,014)	(24,248)
Allowance for doubtful debts		(3,228)	(4,737)
Profit from operations	3 & 4	11,883	34,688
Unrealised gain (loss) on other investments	5	45,986	(36,054)
Gain on partial disposal of subsidiaries		886	—
Income on release of guarantee		—	5,000
Loss on disposal of other investments		—	(21,438)
Share of results of jointly controlled entities		(75)	—
Finance costs	6	(5,030)	(5,322)
Profit (loss) before taxation		53,650	(23,126)
Taxation	7	(1,873)	(3,729)
Profit (loss) before minority interests		51,777	(26,855)
Minority interests		5,612	1,188
Net profit (loss) for the period		57,389	(25,667)
Basic earnings (loss) per share	8	6.50 cents	(7.87) cents

**CONDENSED CONSOLIDATED BALANCE SHEET  
AT 30 SEPTEMBER 2003**

	<i>NOTES</i>	<b>30 September 2003</b> <i>HK\$'000</i> <i>(Unaudited)</i>	<b>31 March 2003</b> <i>HK\$'000</i> <i>(Audited and as restated)</i>
<b>Non-current assets</b>			
Property, plant and equipment	10	52,759	40,760
Investment properties	11	452,780	452,780
Permanent textile quota entitlements		1,758	2,211
Club debenture		921	741
Interests in an associate		19	—
Interests in jointly controlled entities		1,188	1,253
		<hr/> 509,425	<hr/> 497,745
<b>Current assets</b>			
Properties held for sale		83,375	89,500
Other investments	12	66,145	20,000
Inventories		6,194	10,770
Trade and other receivables	13	209,248	197,893
Loans receivable		68,192	71,692
Bills receivable		17,572	17,982
Tax recoverable		816	373
Bank balances and cash		36,880	53,808
		<hr/> 488,422	<hr/> 462,018

**CONDENSED CONSOLIDATED BALANCE SHEET** *(Cont'd)*  
**AT 30 SEPTEMBER 2003**

	<i>NOTES</i>	<b>30 September 2003</b> <i>HK\$'000</i> <i>(Unaudited)</i>	<b>31 March 2003</b> <i>HK\$'000</i> <i>(Audited and as restated)</i>
<b>Current liabilities</b>			
Trade and other payables	14	80,372	73,688
Bills payable		1,342	—
Amount due to a jointly controlled entity		1,234	1,234
Tax payable		17,946	17,394
Obligations under finance leases			
- amount due within one year		19	19
Bank and other borrowings			
- amount due within one year		153,650	161,483
		<hr/> 254,563	<hr/> 253,818
<b>Net current assets</b>		<hr/> 233,859	<hr/> 208,200
		<hr/> 743,284	<hr/> 705,945
<b>Capital and reserves</b>			
Share capital	15	88,245	88,245
Reserves		495,529	438,140
		<hr/> 583,774	<hr/> 526,385
<b>Minority interests</b>		<hr/> —	<hr/> (1,036)
<b>Non-current liabilities</b>			
Obligations under finance leases			
- amount due after one year		28	38
Bank and other borrowings			
- amount due after one year		159,259	180,333
Deferred tax		223	225
		<hr/> 159,510	<hr/> 180,596
		<hr/> 743,284	<hr/> 705,945

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002						
- As originally stated	22,061	1,103,894	895,932	9,800	(1,559,540)	472,147
- Adjustment on adoption of SSAP 12 (Revised) (see note 2)	—	—	—	—	(312)	(312)
- As restated	22,061	1,103,894	895,932	9,800	(1,559,852)	471,835
Rights issue of shares at a price of HK\$0.12 per rights share	66,184	13,237	—	—	—	79,421
Net loss for the year	—	—	—	—	(24,871)	(24,871)
At 31 March 2003	<u>88,245</u>	<u>1,117,131</u>	<u>895,932</u>	<u>9,800</u>	<u>(1,584,723)</u>	<u>526,385</u>
At 1 April 2003						
- As originally stated	88,245	1,117,131	895,932	9,800	(1,584,498)	526,610
- Adjustment on adoption of SSAP 12 (Revised) (see note 2)	—	—	—	—	(225)	(225)
- As restated	88,245	1,117,131	895,932	9,800	(1,584,723)	526,385
Net profit for the period	—	—	—	—	57,389	57,389
At 30 September 2003	<u>88,245</u>	<u>1,117,131</u>	<u>895,932</u>	<u>9,800</u>	<u>(1,527,334)</u>	<u>583,774</u>
At 1 April 2002 (as restated)	22,061	1,103,894	895,932	9,800	(1,559,852)	471,835
Rights issue of shares at a price of HK\$0.12 per rights share	66,184	13,237	—	—	—	79,421
Net loss for the period	—	—	—	—	(25,667)	(25,667)
At 30 September 2002	<u>88,245</u>	<u>1,117,131</u>	<u>895,932</u>	<u>9,800</u>	<u>(1,585,519)</u>	<u>525,589</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003**

	<b>Six months ended 30 September</b>	
	<b>2003</b> <i>HK\$'000</i> <i>(Unaudited)</i>	<b>2002</b> <i>HK\$'000</i> <i>(Unaudited)</i>
Net cash from operating activities	16,195	9,941
Net cash used in investing activities	(4,206)	(68,389)
Net cash (used in) from financing activities	(28,917)	17,766
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(16,928)	(40,682)
Cash and cash equivalents at beginning of the period	53,808	55,770
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>36,880</u>	<u>15,088</u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

## 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 ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA").

## 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.

In the current period, the Group has adopted SSAP 12 (Revised) "Income taxes", for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for deferred tax which was adopted in the condensed financial statements. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy to recognise deferred tax using the balance sheet liability method has been applied retrospectively and resulted in increases in accumulated losses of the Group by HK\$312,000 at 1 April 2002 and HK\$225,000 at 1 April 2003. In addition, loss of the Group for the six months ended 30 September 2002 decreased by HK\$40,000 and profit of the Group for the six months ended 30 September 2003 increased by HK\$2,000. Comparative amounts for the previous period have been restated in order to achieve a consistent presentation.

Other than the above, the accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31 March 2003.

### 3. SEGMENT INFORMATION

#### Business segments

For management purposes, the Group is currently organised into six main operating divisions - garment sourcing and export, bleaching and dyeing, property investment, investment in securities, telecommunications services and related investments, and loan financing. These divisions are the bases on which the Group reports its primary segment information.

	Garment sourcing and export <i>HK\$'000</i>	Bleaching and dyeing <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment in securities <i>HK\$'000</i>	Tele- communications services and related investments <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended								
30 September 2003:								
<b>Turnover</b>								
External	309,760	25,577	15,341	—	1,922	—	—	352,600
Inter-segment	—	—	1,500	—	—	—	(1,500)	—
	<u>309,760</u>	<u>25,577</u>	<u>16,841</u>	<u>—</u>	<u>1,922</u>	<u>—</u>	<u>(1,500)</u>	<u>352,600</u>
<b>Result</b>								
Segment result and profit (loss) from operations	<u>18,079</u>	<u>(844)</u>	<u>7,922</u>	<u>(339)</u>	<u>(12,255)</u>	<u>2,725</u>	<u>(3,405)</u>	<u>11,883</u>
	Garment sourcing and export <i>HK\$'000</i>	Bleaching and dyeing <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment in securities <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	
Six months ended								
30 September 2002:								
<b>Turnover</b>								
External	307,264	9,018	9,133	—	—	—	—	325,415
Inter-segment	—	—	1,572	—	—	—	(1,572)	—
	<u>307,264</u>	<u>9,018</u>	<u>10,705</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,572)</u>	<u>325,415</u>
<b>Result</b>								
Segment result and profit (loss) from operations	<u>32,577</u>	<u>(2,228)</u>	<u>9,877</u>	<u>(691)</u>	<u>(3,925)</u>	<u>(922)</u>	<u>(922)</u>	<u>34,688</u>

#### 4. PROFIT FROM OPERATIONS

	Six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation on:		
- property, plant and equipment	4,297	1,608
- permanent textile quota entitlements	453	905
	<u>4,750</u>	<u>2,513</u>

#### 5. UNREALISED GAIN (LOSS) ON OTHER INVESTMENTS

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

#### 6. FINANCE COSTS

	Six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Interest on borrowings:		
- wholly repayable within five years	4,886	5,322
- not wholly repayable within five years	144	—
	<u>5,030</u>	<u>5,322</u>

#### 7. TAXATION

	Six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Current tax:		
Hong Kong Profits Tax	1,875	3,769
Deferred tax:		
Current period	(23)	(40)
Attributable to a change in tax rate	21	—
	<u>(2)</u>	<u>(40)</u>
Taxation attributable to the Company and its subsidiaries	<u>1,873</u>	<u>3,729</u>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 September 2002: 16%) of the estimated assessable profit for the period.



## 8. EARNINGS (LOSS) PER SHARE

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

	<b>Six months ended 30 September</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit (loss) for the period</b>		
Profit (loss) for the purposes of basic earnings (loss) per share	57,389	(25,667)

	<b>Six months ended 30 September</b>	
	<b>2003</b>	<b>2002</b>
<b>Number of shares</b>		
Number/weighted average number of shares for the purposes of basic earnings (loss) per share	882,448,924	326,226,901

The denominator for the purposes of calculating basic loss per share for the six months ended 30 September 2002 has been adjusted to reflect the consolidation of shares in August 2002 on the basis that ten shares were consolidated into one share and the rights issue of shares in September 2002.

No diluted earnings per share for the six months ended 30 September 2003 has been disclosed as the Company has no dilutive share options outstanding during the period and the exercise prices of the outstanding share options of a listed subsidiary of the Company are greater than the average price of the shares of that subsidiary.

The calculation of diluted loss per share for the six months ended 30 September 2002 had not been disclosed as the exercise of the Company's outstanding share options would reduce the loss per share for that period.

## 9. DIVIDEND

No dividend was paid by the Company during the period. The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$16,482,000 (six months ended 30 September 2002: HK\$69,376,000) on acquisition of property, plant and equipment.

## 11. INVESTMENT PROPERTIES

In the opinion of the directors of the Company, there is no significant change in value of the Group's investment properties since the last professional valuation of 31 March 2003.

## 12. OTHER INVESTMENTS

	<b>30 September 2003</b> <i>HK\$'000</i>	<b>31 March 2003</b> <i>HK\$'000</i>
Equity securities listed in Hong Kong - 21CN, at market value	<u>66,145</u>	<u>20,000</u>

21CN is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange. 21CN and its subsidiaries are principally engaged in the provision of telecommunications value-added services, systems integration and software development, and Internet-related business.

At 30 September 2003, the Group holds 100,220,000 shares (31.3.2003: 100,000,000 shares) of 21CN representing approximately 3.22% (31.3.2003: 3.22%) of the issued ordinary shares of HK\$0.01 each in the capital of 21CN.

## 13. TRADE AND OTHER RECEIVABLES

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

	<b>30 September 2003</b> <i>HK\$'000</i>	<b>31 March 2003</b> <i>HK\$'000</i>
0 - 60 days	100,462	156,329
61 - 90 days	23,712	23,626
Over 90 days	<u>73,358</u>	<u>8,311</u>
	<u>197,532</u>	<u>188,266</u>

## 14. TRADE AND OTHER PAYABLES

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

	<b>30 September 2003</b> <i>HK\$'000</i>	<b>31 March 2003</b> <i>HK\$'000</i>
0 - 60 days	43,613	41,122
61 - 90 days	6,266	1,275
Over 90 days	<u>11,747</u>	<u>3,450</u>
	<u>61,626</u>	<u>45,847</u>

## 15. SHARE CAPITAL

	<b>Nominal value per share</b> <i>HK\$</i>	<b>Number of shares</b>	<b>Amount</b> <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 31 March 2003 and 30 September 2003	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 31 March 2003 and 30 September 2003	0.10	<u>882,448,924</u>	<u>88,245</u>

There was no movement in the authorised, issued and fully paid share capital of the Company during the interim period under review.

## 16. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) 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:

	<b>Six months ended 30 September</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of fabric	17,784	—
Sales of garments	348	1,379
Bleaching and dyeing charges received	745	2,415
Purchases of garments	121,315	121,543
	<u>          </u>	<u>          </u>

At the reporting date, amounts due from these entities comprise:

	<b>30 September 2003</b>	<b>31 March 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	22,746	17,450
Deposits paid	85,404	71,933
	<u>          </u>	<u>          </u>
Loans and interest receivable	108,150	89,383
	—	3,119
	<u>          </u>	<u>          </u>
	<u>108,150</u>	<u>92,502</u>

The loans bore interest at 2% per annum and were repaid in full on 1 April 2003. Interest income earned during the six months ended 30 September 2002 amounted to HK\$214,000.

- (b) The Group made advances to i100 Limited (renamed as Asia Alliance Holdings Limited), a non wholly-owned subsidiary whose shares are listed on the Stock Exchange, to finance its operation. Such advances are unsecured, bear interest at prime rate and are repayable on demand. Interest income earned during the period amounted to HK\$759,000 (six months ended 30 September 2002: nil). At 30 September 2003, the amounts of advances outstanding and interest receivable were HK\$30,270,000 (31.3.2003: HK\$30,270,000) and nil (31.3.2003: HK\$166,000), respectively.

## 16. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS (Cont'd)

- (c) The Group also made advances to Mary Mac Apparel, Inc., a non wholly-owned subsidiary, to finance its operation. Such advances are unsecured, bear interest at 5% per annum and are repayable on demand. Interest income earned during the period amounted to HK\$376,000 (six months ended 30 September 2002: nil). At 30 September 2003, the amounts of advances outstanding and interest receivable were HK\$15,548,000 (31.3.2003: HK\$13,505,000) and HK\$1,012,000 (31.3.2003: HK\$636,000), respectively.
- (d) The Group provided administrative services to Easyknit Properties Management Limited, a company in which Koon Wing Yee and Tsang Yiu Kai, both of whom are directors of the Company, have beneficial interests. Service income earned during the period amounted to HK\$101,000 (six months ended 30 September 2002: HK\$74,000). The service income is determined based on mutually agreed terms.

## 17. CONTINGENT LIABILITIES

	<b>30 September 2003</b> <i>HK\$'000</i>	<b>31 March 2003</b> <i>HK\$'000</i>
Bills discounted with recourse	<u>2,281</u>	<u>13,460</u>

## 18. CAPITAL COMMITMENTS

	<b>30 September 2003</b> <i>HK\$'000</i>	<b>31 March 2003</b> <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
- acquisition of property, plant and equipment	85	3,085
- capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	<u>20,989</u>	<u>24,342</u>
	<u>21,074</u>	<u>27,427</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the six months ended 30 September 2003, turnover of the Group was HK\$352,600,000, representing an increase of about 8.4% compared to HK\$325,415,000 for the same period last year. Profit from operations amounted to HK\$11,883,000, down about 65.7% of the corresponding six months last year.

During the period, the Group recorded an unrealised gain on other investments of HK\$45,986,000. Other investments represent the Group's investments in the shares of 21CN CyberNet Corporation Limited. As a result, though profit from operations was less than the corresponding period last year, the Group had net profit for the period of HK\$57,389,000 (2002: net loss for the period of HK\$25,667,000). Earnings per share were 6.50 HK cents (2002: loss per share of 7.87 HK cents).

### Business Review

During the period, the principal business activities of the Group continued to be sourcing and export of cotton-based knitted garments for women, children and infants, bleaching and dyeing, property investment, and provision of wireless communication services. Despite the slowdown in global economy and the outbreak of Severe Acute Respiratory Syndrome, the Group reported a turnaround and recorded profits for the period under review.

#### ***Garment-related businesses***

Garment sourcing and export remained the major business of the Group and contributed approximately 87.9% of the Group's total turnover of HK\$352,600,000, an increase of 0.8% 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\$283,539,000, down approximately 0.7% over the same period last year, representing around 80.4% of the Group's total turnover. The revenue from the bleaching and dyeing segment was HK\$25,577,000, equivalent to approximately 7.3% of the Group's total turnover.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (Cont'd)

### **Business Review** (Cont'd)

#### ***Property investment***

During the period under review, the signing of the Closer Economic Partnership Arrangement ("CEPA") and further relaxation of restrictions for Mainlanders entering Hong Kong did improve the overall market sentiment. Jobless rate decreased while consumer spending increased. The property market witnessed a sign of recovery. To seize this opportunity, the Group launched the sale of Fa Yuen Plaza, a commercial and residential complex developed by the Group, in May 2003. Up to the date of this report, all the commercial units have been leased out and about 20% of the residential properties have been sold to genuine end users. The sale was conducive to the turnover of the property investment segment amounting to HK\$16,841,000, an increase of 57.3% compared to the corresponding period last year.

#### ***Provision of wireless communication services***

The Company's non wholly-owned subsidiary, i100 Wireless (Hong Kong) Limited, continues its principal activity of providing branded wireless data services in Hong Kong. In June 2003, all the active customer accounts of its 2.5G MVNO (mobile virtual network operator) business operated under the trade name of Noodle were transferred to SUNDAY. Hence, i100 Wireless (Hong Kong) Limited became a content provider to SUNDAY. However, the wireless communication business still suffers from huge loss.

### **Prospects**

#### ***Garment-related businesses***

In view of the successful accession of the PRC to the World Trade Organization and the lifting of the textile export quota system in 2005, it is expected that the textile and garment industry will bloom and flourish. The outlook of the textile and garment industry is promising. The Group will dedicate its resources to the development of its garment-related businesses, including promoting its garment brand "Mary Mac" through its office in New York with a target to introduce "Mary Mac" in the PRC market to benefit from the CEPA and further investing in the dyeing factory in Dongguan to increase its production capacity to an annual production of about 10 million pounds of dyed fabrics.

#### ***Property investment***

With the recent rise in the US economy, introduction of the CEPA and further relaxation of restrictions for Mainlanders entering Hong Kong, barring any unforeseeable terrorism, the directors are optimistic about the property market and expect a modest rise in properties' value and rental, especially for properties in prime retail areas. It is believed that the sale of the residential units of Fa Yuen Plaza will continue to bring in considerable revenue to the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (Cont'd)

### **Prospects** (Cont'd)

#### ***Provision of wireless communication services***

As economic recovery in Hong Kong is under way and customers begin to appreciate the value of affordable mobile entertainment, the directors are in the opinion that the future of the mobile data remains promising.

### **Significant Corporate Events**

Subsequent to the Company's acquisition of about 55.27% equity interest of Asia Alliance Holdings Limited (formerly known as i100 Limited) ("Asia Alliance") through its wholly-owned subsidiary, Landmark Profits Limited, on 28 January 2003, a mandatory general offer was made for the shares that the Company did not own. The general offer resulted in the Company holding approximately 55.30% equity interest of Asia Alliance as at 14 April 2003. Disposals of Asia Alliance's shares in June 2003 brought the Company's interest in Asia Alliance down to approximately 51.73% as at 30 June 2003. On 8 September 2003, every 40 shares of Asia Alliance of HK\$0.01 each were consolidated into one consolidated share of HK\$0.40 each. On 25 September 2003, Asia Alliance issued 13,773,412 rights shares at a price of HK\$1.00 per rights share and the Company through Landmark Profits Limited took up 7,125,518 rights shares. Both the share consolidation and the rights issue of Asia Alliance have no impact on the Company's shareholding in Asia Alliance. As a result of the placing of 8,264,047 new shares of Asia Alliance on 17 November 2003, the Company's interest in Asia Alliance has been reduced to about 43.11% of the existing issued share capital of Asia Alliance. As announced by Asia Alliance on 27 November 2003, a placing of 9,916,856 new shares is expected to take place around 22 December 2003. Upon completion of the placing, the shareholding of the Company in Asia Alliance will further be diluted to approximately 35.93% of the enlarged issued share capital of Asia Alliance.

### **Employment, Training, Development and Remuneration Policy**

As at 30 September 2003, the number of staff of the Group in the US, Mainland China and Hong Kong was about 20, 180 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, for Hong Kong's employees.

### **Capital Expenditure**

During the period, the Group spent HK\$16,482,000 on acquisition of property, plant and equipment.



## **MANAGEMENT DISCUSSION AND ANALYSIS** (Cont'd)

### **Liquidity and Financial Resources**

As at 30 September 2003, the Group's bank deposits amounted to HK\$36,880,000. Net current assets were HK\$233,859,000. During the period, the Group's operations continued to be financed by internal resources and bank borrowings.

The Group's gearing ratio at the period end date was 0.5 times (31 March 2003: 0.6 times), which was calculated on the basis of the Group's total borrowings of HK\$312,909,000 (31 March 2003: HK\$341,816,000) over the shareholders' fund of HK\$583,774,000 (31 March 2003: HK\$526,385,000).

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

As at 30 September 2003, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

### **Capital Structure**

The Group had no debt securities or other capital instruments as at 30 September 2003 and up to the date of this report.

### **Material Acquisitions and Disposals**

The Group had no material acquisitions and disposals of subsidiaries or associates during the six months ended 30 September 2003.

### **Pledges of Assets, Contingent Liabilities and Capital Commitments**

There was no material change in the Group's pledges of assets as compared to the most recent published annual report while the contingent liabilities and capital commitments decreased by HK\$11,179,000 and HK\$6,353,000 respectively.

## DIRECTORS' INTERESTS IN SHARES

As at 30 September 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

### A. Interests in the Company

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of the Company
Mr. Koon Wing Yee (Note a)	Interest of spouse	324,216,452	36.74%
Ms. Lui Yuk Chu (Note a)	Beneficiary of a trust	324,216,452	36.74%
Mr. Tsang Yiu Kai	Beneficial owner	98,175	0.01%

### B. Interests in associated corporations

#### (1) Asia Alliance (Note b)

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of Asia Alliance
Mr. Koon Wing Yee (Note c)	Interest of spouse	21,376,554	51.73%
Ms. Lui Yuk Chu (Note c)	Beneficiary of a trust	21,376,554	51.73%

## DIRECTORS' INTERESTS IN SHARES (Cont'd)

### (2) Wellmake Investments Limited ("Wellmake") (Note d)

Name of director	Capacity	Number of non-voting deferred share held	Percentage to issued non-voting deferred shares of Wellmake
Mr. Koon Wing Yee	Beneficial owner	1	50%
Ms. Lui Yuk Chu	Beneficial owner	1	50%

#### Notes:

- (a) The 324,216,452 shares were registered in the name of and were beneficially owned by Magical Profits Limited which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 324,216,452 shares by virtue of the SFO.
- (b) Asia Alliance was a 51.73% owned subsidiary of the Company.
- (c) The 21,376,554 shares were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of the Company. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Company. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 21,376,554 shares by virtue of the SFO.
- (d) All the issued ordinary shares which carry the voting rights in the share capital of Wellmake were held by the Company.

Save as disclosed above, as at 30 September 2003, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the six months ended 30 September 2003 was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

## **SHARE OPTION SCHEMES**

### **A. The Company**

On 18 February 2002, a share option scheme (the "Scheme") was approved by the shareholders of the Company pursuant to the new requirements of Chapter 17 of the Listing Rules. Throughout the six months ended 30 September 2003, no share options were outstanding, granted, exercised, cancelled or lapsed under the Scheme.

### **B. Subsidiaries**

#### **(1) Asia Alliance**

On 21 August 1991, Asia Alliance approved a share option scheme (the "1991 Share Option Scheme") which was terminated by an ordinary resolution of the shareholders at the annual general meeting held on 22 May 2001. The subsisting options granted under the 1991 Share Option Scheme prior to its termination remain valid and exercisable in accordance with the terms of the 1991 Share Option Scheme.

On 22 May 2001, Asia Alliance approved a share option scheme (the "2001 Share Option Scheme") which was terminated by an ordinary resolution of the shareholders at the annual general meeting held on 6 June 2002 but the subsisting options granted thereunder prior to its termination remain valid and exercisable in accordance with the terms of the 2001 Share Option Scheme.

On 6 June 2002, a new share option scheme (the "2002 Share Option Scheme") was approved by the shareholders of Asia Alliance pursuant to the new requirements of Chapter 17 of the Listing Rules. No share options have been granted under the 2002 Share Option Scheme since its adoption.

## SHARE OPTION SCHEMES (Cont'd)

Particulars of the outstanding share options of Asia Alliance granted to the continuous contract employees of Asia Alliance and its subsidiaries under the 1991 Share Option Scheme and the 2001 Share Option Scheme and their movements during the period under review were as follows:

Share Option Scheme	Date of grant of share options	Number of share options (adjusted as appropriate)				Exercise price per share option <sup>(d)</sup> HK\$	Share price immediately preceding the grant date of share options <sup>(d)</sup> HK\$	Exercise period of share options
		As at 01/04/2003	Lapsed during the period	Adjustments*	As at 30/09/2003			
1991	02/08/2000 <sup>(a)</sup>	595,000	(350,000)	(245,000)	—	0.75	0.80	02/08/2001 to 01/08/2010
		—	—	9,187	9,187	20.00*	—	
1991	26/03/2001 <sup>(a)</sup>	725,000	(450,000)	(275,000)	—	0.385	0.39	26/03/2002 to 25/03/2011
		—	—	10,312	10,312	10.267*	—	
2001	31/08/2001 <sup>(a)</sup>	1,928,000	(800,000)	(1,128,000)	—	0.4032	0.50	31/08/2002 to 30/08/2011
		—	—	42,300	42,300	10.752*	—	
2001	31/08/2001 <sup>(c)</sup>	25,000,000	—	(25,000,000)	—	0.4032	0.50	31/08/2001 to 30/08/2011
		—	—	937,500	937,500	10.752*	—	
		<u>28,248,000</u>	<u>(1,600,000)</u>	<u>(25,648,701)</u>	<u>999,299</u>			

Notes:

- All dates are shown day/month/year.
- The vesting period is the period of three years after the date of grant. One-third of the share options become exercisable after 12 months from the date of grant, and after the subsequent 18 months, 24 months, 30 months and 36 months from the date of grant, further one-sixth of the options become exercisable.
- The vesting period is the period of six months after the date of grant. Half of the share options are exercisable from the date of grant and the remaining half becomes exercisable after 6 months from the date of grant.
- The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of Asia Alliance.

## SHARE OPTION SCHEMES (Cont'd)

Notes: (Cont'd)

- (e) The price of the shares of Asia Alliance disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.
- (f) No share options were granted, exercised or cancelled during the period.
- \* The number of share options and the corresponding exercise price have been adjusted as a result of the share consolidation and the rights issue of shares of Asia Alliance in September 2003.

### (2) solution100 Corporation

On 22 May 2001, solution100 Corporation, a wholly-owned subsidiary of Asia Alliance, adopted a share option scheme under which options to subscribe for shares in the share capital of solution100 Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share options have been granted under the share option scheme of solution100 Corporation since its adoption.

### (3) i100 Wireless Corporation

On 6 June 2002, i100 Wireless Corporation, a wholly-owned subsidiary of Asia Alliance, adopted a share option scheme pursuant to the new requirements of Chapter 17 of the Listing Rules and under which options to subscribe for shares in the share capital of i100 Wireless Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share options have been granted under the share option scheme of i100 Wireless Corporation since its adoption.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the persons (other than the directors or chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of the Company
Magical Profits Limited ( <i>Note</i> )	Beneficial owner	324,216,452	36.74%
Accumulate More Profits Limited ( <i>Note</i> )	Interest of controlled corporation	324,216,452	36.74%
Newcourt Trustees Limited ( <i>Note</i> )	Trustee	324,216,452	36.74%

*Note:* The 324,216,452 shares were registered in the name of and were beneficially owned by Magical Profits Limited which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu, a director and her family members).

Save as disclosed above, as at 30 September 2003, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2003.

## AUDIT COMMITTEE

The current audit committee comprises two members, Mr. Chan Chi Chung and Mr. Wong Sui Wah, Michael, both of whom are independent non-executive directors of the Company. The audit committee has reviewed with the 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 2003.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2003, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

By Order of the Board of  
**Easyknit International Holdings Limited**  
**KOON, Wing Yee**  
*President and Chief Executive Officer*

Hong Kong, 18 December 2003