



EASYKNIT INTERNATIONAL HOLDINGS LIMITED
永 義 國 際 集 團 有 限 公 司

INTERIM REPORT 2004
二 零 零 四 年 度 中 期 業 績 報 告

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 2004 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 2004

	NOTES	Six months ended 30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	3	255,711	352,600
Cost of sales		(195,032)	(289,997)
Gross profit		60,679	62,603
Other operating income		2,879	2,352
Unrealised gain on other investments		28,670	—
Distribution costs		(11,335)	(15,830)
Administrative expenses		(27,448)	(34,014)
Allowance for doubtful debts		(4,323)	(3,228)
Profit from operations	3 & 4	49,122	11,883
Unrealised gain on other investments		—	45,986
Gain on disposal of subsidiaries	18	30,884	—
Share of results of associates		2,819	—
Gain on partial disposal of subsidiaries		—	886
Share of results of jointly controlled entities		—	(75)
Finance costs	5	(1,689)	(5,030)
Profit before taxation		81,136	53,650
Taxation	6	(5,230)	(1,873)
Profit before minority interests		75,906	51,777
Minority interests		—	5,612
Net profit for the period		75,906	57,389
Basic earnings per share	7	6.75 HK cents	6.79 HK cents

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2004**

	<i>NOTES</i>	30 September 2004 <i>HK\$'000</i> <i>(Unaudited)</i>	31 March 2004 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	9	25,052	39,003
Investment properties	10	479,280	479,280
Permanent textile quota entitlements		123	884
Club debenture		921	921
Interests in associates		6,287	20,788
		511,663	540,876
Current assets			
Properties held for sale		32,801	56,686
Other investments	11	73,404	—
Inventories		7,950	8,355
Consideration receivables on disposal of subsidiaries	12	54,500	79,000
Trade and other receivables	13	233,599	226,713
Amount due from an associate		121	—
Loans receivable		45,325	43,277
Bills receivable		22,650	16,401
Tax recoverable		46	2,467
Bank balances and cash		68,447	67,357
		538,843	500,256

CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)
AT 30 SEPTEMBER 2004

	<i>NOTES</i>	30 September 2004 <i>HK\$'000</i> <i>(Unaudited)</i>	31 March 2004 <i>HK\$'000</i> <i>(Audited)</i>
Current liabilities			
Trade and other payables	14	30,474	55,778
Bills payable		1,088	704
Tax payable		16,307	15,343
Obligations under finance leases			
- amount due within one year		19	19
Secured borrowings			
- amount due within one year		125,602	150,420
		<u>173,490</u>	<u>222,264</u>
Net current assets		<u>365,353</u>	<u>277,992</u>
		<u>877,016</u>	<u>818,868</u>
Capital and reserves			
Share capital	15	132,367	88,245
Reserves		652,670	578,970
		<u>785,037</u>	<u>667,215</u>
Non-current liabilities			
Obligations under finance leases			
- amount due after one year		8	18
Secured borrowings			
- amount due after one year		91,217	151,125
Deferred taxation	16	754	510
		<u>91,979</u>	<u>151,653</u>
		<u>877,016</u>	<u>818,868</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	88,245	1,117,131	895,932	9,800	—	(1,584,723)	526,385
Net profit for the year	—	—	—	—	—	140,830	140,830
At 31 March 2004	88,245	1,117,131	895,932	9,800	—	(1,443,893)	667,215
Reductions of share premium and capital reserve and offsetting of accumulated losses (see note 17)	—	(1,117,131)	(895,932)	—	227,555	1,785,508	—
Rights issue of shares at a price of HK\$0.11 per rights share	44,122	4,412	—	—	—	—	48,534
Net profit for the period	—	—	—	—	—	75,906	75,906
Final dividend paid	—	—	—	—	(6,618)	—	(6,618)
At 30 September 2004	<u>132,367</u>	<u>4,412</u>	<u>—</u>	<u>9,800</u>	<u>220,937</u>	<u>417,521</u>	<u>785,037</u>
At 1 April 2003	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>—</u>	<u>(1,527,334)</u>	<u>583,774</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004**

	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash (used in) from operating activities	(13,891)	16,195
Net cash from (used in) investing activities	42,409	(4,206)
Net cash used in financing activities	(27,428)	(28,917)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	1,090	(16,928)
Cash and cash equivalents at beginning of the period	67,357	53,808
	<hr/>	<hr/>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>68,447</u>	<u>36,880</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

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 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 Institute of Certified Public 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 accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31 March 2004.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into four main operating divisions - garment sourcing and export, property investment, investment in securities and loan financing. These divisions are the bases on which the Group reports its primary segment information. The divisions of telecommunications services and related investments and bleaching and dyeing were discontinued in November 2003 and May 2004 respectively.

	Continuing operations				Discontinued operation	Eliminations	Consolidated
	Garment sourcing and export	Property investment	Investment in securities	Loan financing	Bleaching and dyeing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 September 2004:							
Turnover							
External	210,803	37,932	—	—	6,976	—	255,711
Inter-segment	—	1,500	—	—	7	(1,507)	—
	<u>210,803</u>	<u>39,432</u>	<u>—</u>	<u>—</u>	<u>6,983</u>	<u>(1,507)</u>	<u>255,711</u>
Result							
Segment result and profit (loss) from operations	<u>6,277</u>	<u>13,408</u>	<u>29,589</u>	<u>755</u>	<u>(258)</u>	<u>(649)</u>	<u>49,122</u>

3. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Continuing operations			Discontinued operations				
	Garment sourcing and export <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment in securities <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Tele- communications services and related investments <i>HK\$'000</i>	Bleaching and dyeing <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 30 September 2003:								
Turnover								
External	309,760	15,341	—	—	1,922	25,577	—	352,600
Inter-segment	—	1,500	—	—	—	—	(1,500)	—
	<u>309,760</u>	<u>16,841</u>	<u>—</u>	<u>—</u>	<u>1,922</u>	<u>25,577</u>	<u>(1,500)</u>	<u>352,600</u>
Result								
Segment result and profit (loss) from operations	<u>18,079</u>	<u>7,922</u>	<u>(339)</u>	<u>2,725</u>	<u>(12,255)</u>	<u>(844)</u>	<u>(3,405)</u>	<u>11,883</u>

4. PROFIT FROM OPERATIONS

**Six months ended
30 September
2004** **2003**
HK\$'000 *HK\$'000*

Profit from operations has been arrived at after charging:

Depreciation and amortisation on:

- property, plant and equipment	961	4,297
- permanent textile quota entitlements	761	453
	<u>761</u>	<u>453</u>

5. FINANCE COSTS

**Six months ended
30 September
2004** **2003**
HK\$'000 *HK\$'000*

Interest on borrowings:

- wholly repayable within five years	1,689	4,886
- not wholly repayable within five years	—	144
	<u>1,689</u>	<u>5,030</u>

6. TAXATION

	Six months ended 30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge (credit) comprises:		
Current tax:		
Hong Kong Profits Tax	4,986	1,875
Deferred taxation (note 16):		
Current period	244	(23)
Attributable to a change in tax rate	—	21
	<u>244</u>	<u>(2)</u>
Taxation attributable to the Company and its subsidiaries	<u>5,230</u>	<u>1,873</u>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 September 2003: 17.5%) of the estimated assessable profit for the period.

7. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purposes of basic earnings per share	<u>75,906</u>	<u>57,389</u>

	Six months ended 30 September	
	2004	2003
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share	<u>1,124,893,809</u>	<u>845,033,090</u>

The denominator for the purposes of calculating basic earnings per share for the six months ended 30 September 2003 has been adjusted to reflect the rights issue of shares in June 2004.

No diluted earnings per share for the six months ended 30 September 2004 has been disclosed as the Company has no dilutive share options outstanding during the period.

No diluted earnings per share for the six months ended 30 September 2003 had 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 former listed subsidiary of the Company were higher than the average price of the shares of that subsidiary.

8. DIVIDEND

During the period, a final dividend of HK0.5 cent per share for the year ended 31 March 2004 (six months ended 30 September 2003: nil) was paid to shareholders.

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2004.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$1,549,000 (six months ended 30 September 2003: HK\$16,482,000) on acquisition of property, plant and equipment and disposed of property, plant and equipment of HK\$14,539,000 (six months ended 30 September 2003: HK\$186,000), of which HK\$14,529,000 (six months ended 30 September 2003: nil) was related to disposal of subsidiaries.

10. INVESTMENT PROPERTIES

In the opinion of the directors of the Company, there is no significant change in the open market value of the Group's investment properties since the last professional valuation as of 31 March 2004.

11. OTHER INVESTMENTS

	30 September 2004 <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
Equity securities listed in Hong Kong at market value	73,404	—

12. CONSIDERATION RECEIVABLES ON DISPOSAL OF SUBSIDIARIES

The amounts represent the consideration receivables on disposal of the entire issued share capital of the following subsidiaries:

	30 September 2004 <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
Consideration receivables on disposal of:		
- Po Cheong International Enterprises Limited ("Po Cheong") (see note 18)	15,000	—
- Touch Profits Limited ("Touch Profits")	39,500	79,000
	<u>54,500</u>	<u>79,000</u>

The repayment terms of the balance in respect of Touch Profits is as follows:

	30 September 2004 <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
Repayable:		
On or before 20 July 2004	—	39,500
On or before 20 January 2005	39,500	39,500
	<u>39,500</u>	<u>79,000</u>

The consideration in relation to the disposal of Po Cheong amounted to HK\$65,000,000, of which HK\$50,000,000 was received by the Group in May 2004 and the remaining balance of HK\$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004) in the mid of 2005.

13. TRADE AND OTHER RECEIVABLES

	30 September 2004	31 March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	17,055	55,192
Deposits to suppliers	199,130	166,079
Other receivables	17,414	5,442
	<u>233,599</u>	<u>226,713</u>

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:

	30 September 2004	31 March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	10,966	23,722
61 - 90 days	745	3,565
Over 90 days	5,344	27,905
	<u>17,055</u>	<u>55,192</u>

14. TRADE AND OTHER PAYABLES

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

	30 September 2004	31 March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	13,132	20,703
61 - 90 days	—	1,466
Over 90 days	297	14,941
	<u>13,429</u>	<u>37,110</u>

15. SHARE CAPITAL

	Nominal value per share	Number of shares	Amount
	<i>HK\$</i>		<i>HK\$'000</i>
Authorised:			
At 1 April 2003 and 1 April 2004	0.10	30,000,000,000	3,000,000
Reduction of authorised share capital	0.10	(20,000,000,000)	(2,000,000)
		<u>10,000,000,000</u>	<u>1,000,000</u>
At 30 September 2004	0.10	10,000,000,000	1,000,000
Issued and fully paid:			
At 1 April 2003 and 1 April 2004	0.10	882,448,924	88,245
Rights issue of shares at a price of HK\$0.11 per rights share	0.10	441,224,462	44,122
		<u>1,323,673,386</u>	<u>132,367</u>
At 30 September 2004	0.10	1,323,673,386	132,367

16. DEFERRED TAXATION

Major deferred tax liabilities and assets recognised and movements thereon are as follows:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	1,912	(1,687)	225
Charge (credit) to the income statement	2,222	(2,245)	(23)
Effect of change in tax rate - charge (credit) to the income statement	179	(158)	21
At 30 September 2003	4,313	(4,090)	223
Charge to the income statement	153	134	287
At 31 March 2004	4,466	(3,956)	510
Charge (credit) to the income statement	1,516	(1,272)	244
At 30 September 2004	<u>5,982</u>	<u>(5,228)</u>	<u>754</u>

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset.

At the reporting date, the deductible temporary differences not recognised were analysed as follows:

	30 September 2004 <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
Tax losses	248,203	320,831
Accelerated accounting depreciation	5,490	109,523
Miscellaneous allowance	8,784	8,784
	<u>262,477</u>	<u>439,138</u>

At 30 September 2004, the Group has unused tax losses of HK\$278,077,000 (31.3.2004: HK\$343,437,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$29,874,000 (31.3.2004: HK\$22,606,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$248,203,000 (31.3.2004: HK\$320,831,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except losses of HK\$15,202,000 (31.3.2004: HK\$15,202,000) which will be expired as follows:

	30 September 2004 <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
Year of expiry:		
2022	1,821	1,821
2023	2,163	2,163
2024	11,218	11,218
	<u>15,202</u>	<u>15,202</u>

17. RESERVES

As announced by the Company on 26 July 2004, the Company proposed to effect the reductions of certain reserves of the Company as follows:

- (i) the entire amount standing to the credit of the share premium account and the capital reserve account of the Company will be reduced; and
- (ii) part of the credits arising from (i) above in the sum of HK\$1,785,508,000 will be applied to offset the accumulated losses of the Company as at 31 March 2004 in full and the remaining balance of HK\$227,555,000 will be transferred to the contributed surplus account of the Company.

Details of the proposal are set out in the circular dated 30 July 2004 issued by the Company. The resolution approving the proposal was passed at the special general meeting of the Company held on 23 August 2004.

18. DISPOSAL OF SUBSIDIARIES

As announced by the Company on 5 March 2004, the Group conditionally agreed to sell the entire issued shares of Po Cheong, a wholly-owned subsidiary of the Company to a wholly-owned subsidiary of Asia Alliance Holdings Limited ("Asia Alliance"), an associate of the Group, at a consideration of HK\$65,000,000. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The consideration shall be satisfied in cash, of which HK\$50,000,000 was received by the Group on 13 May 2004 and the remaining balance of HK\$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004) in the mid of 2005. The disposal constituted a discontinued operation of the Group and was completed on 17 May 2004.

The results of the discontinued operations were as follows:

	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	6,983	25,577
Cost of sales	(6,465)	(24,480)
	<hr/>	<hr/>
Gross profit	518	1,097
Other operating income	15	61
Distribution costs	(113)	(535)
Administrative expenses	(678)	(1,467)
	<hr/>	<hr/>
Loss from operations	(258)	(844)
Finance costs	(17)	(106)
	<hr/>	<hr/>
Loss for the period	(275)	(950)
	<hr/> <hr/>	<hr/> <hr/>

18. DISPOSAL OF SUBSIDIARIES (Cont'd)

The net assets of the subsidiaries at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed of	16,571
Gain on disposal of subsidiaries	
- realised	30,884
- unrealised	17,320
	<u> </u>
Total consideration	64,775
	<u> </u>
Satisfied by:	
Cash consideration	
- Cash received	50,000
- Consideration receivable	15,000
Expenses incurred in connection with the disposal of the subsidiaries	(225)
	<u> </u>
	64,775
	<u> </u>
Net cash inflow arising on disposal:	
Cash received	50,000
Expenses incurred in connection with the disposal of the subsidiaries	(225)
Bank balances and cash disposed of	(423)
	<u> </u>
	49,352
	<u> </u>

19. ACQUISITION OF A SUBSIDIARY

During the period, the Group acquired the entire issued shares of Easyknit Properties Management Limited ("EPML") from Messrs. Koon Wing Yee and Tsang Yiu Kai, directors of the Company, for a cash consideration of approximately HK\$15,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

	<i>HK\$'000</i>
Net assets acquired	15
	<u> </u>
Satisfied by:	
Cash (net of negligible expenses incurred in connection with the acquisition)	15
	<u> </u>
Net cash inflow arising on acquisition:	
Cash consideration paid	(15)
Bank balances and cash acquired	22
	<u> </u>
	7
	<u> </u>

The subsidiary acquired did not have any significant impact on the results and cash flows of the Group for the period.

20. 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 Mr. Koon Wing Yee and his spouse, Ms. Lui Yuk Chu, both of whom are directors of the Company:

	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of fabric	683	17,784
Sales of garments	503	348
Bleaching and dyeing charges received	295	745
Purchases of garments	104,777	121,315
	<u> </u>	<u> </u>

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

	30 September	31 March
	2004	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	6,569	10,942
Deposits paid	133,824	102,913
	<u> </u>	<u> </u>
Trade and other receivables	140,393	113,855
	<u> </u>	<u> </u>

- (b) On 17 May 2004, the Group disposed of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000. Details of the transaction are set out in note 18.
- (c) On 20 September 2004, Easyknit Properties Holdings Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Messrs. Koon Wing Yee and Tsang Yiu Kai, the directors of the Company, to acquire the entire issued shares of EPML from them at a cash consideration of approximately HK\$15,000.
- (d) Prior to the acquisition of the entire issued shares of EPML, the Group provided administrative services to EPML in which Messrs. Koon Wing Yee and Tsang Yiu Kai, both of whom are directors of the Company, have beneficial interests and received service income of HK\$117,000 (six months ended 30 September 2003: HK\$101,000) from that company. The service income is determined based on mutually agreed terms.
- (e) The Group also provided administrative services to Asia Alliance, a company in which Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, all of whom are directors of the Company, have beneficial interests, and received service income of HK\$121,000 (six months ended 30 September 2003: nil) from that company. The service income is determined based on mutually agreed terms. At 30 September 2004, the amount has not yet been settled (31.3.2004: nil) and was disclosed as amount due from an associate in the condensed consolidated balance sheet.

21. CONTINGENT LIABILITIES

	30 September	31 March
	2004	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	—	5,719
	<u> </u>	<u> </u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2004, the Group recorded a turnover of approximately HK\$255,711,000, representing a decrease of approximately 27.5% as compared to approximately HK\$352,600,000 for the same period last year. The decrease was mainly attributable to the change in product mix of the Group to sell more garments for infants, which entails a lower price than selling garments for women.

Gross profit remained stable at approximately HK\$60,679,000 (six months ended 30 September 2003: approximately HK\$62,603,000). Profit from operations shot up more than 3 times to approximately HK\$49,122,000 (six months ended 30 September 2003: approximately HK\$11,883,000), primarily because of an unrealised gain on securities investments of approximately HK\$28,670,000 and savings in operating expenses.

Net profit attributable to shareholders for the six months ended 30 September 2004 rose approximately 32.3% to approximately HK\$75,906,000 (six months ended 30 September 2003: approximately HK\$57,389,000), which resulted largely from a gain of approximately HK\$30,884,000 on the disposal of Po Cheong International Enterprises Limited ("Po Cheong"), a then wholly-owned subsidiary of the Company, share of results of Asia Alliance Holdings Limited ("Asia Alliance"), an associate of the Company, of approximately HK\$2,819,000 and reduction in finance costs. Earnings per share were approximately 6.75 HK cents (six months ended 30 September 2003: approximately 6.79 HK cents).

Cost of sales went down by approximately 32.7% to approximately HK\$195,032,000 from approximately HK\$289,997,000 for the corresponding period last year, reflecting the drop in sales for the period under review. As a result of the Group's stringent cost control, the total operating expenses fell to approximately HK\$38,783,000, down approximately 22.2% when compared to approximately HK\$49,844,000 for the same period in 2003.

Finance costs dropped by approximately 66.4% to approximately HK\$1,689,000 (six months ended 30 September 2003: approximately HK\$5,030,000), principally by reason of repayment of certain bank loans totalled approximately HK\$78,082,000 as well as fall in interest rate during the period.

Business Review

In May 2004, the Group disposed of its bleaching and dyeing business. Consequently, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for women, children and infants and property investment during the six months ended 30 September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Business Review *(Cont'd)*

Garment sourcing and export

During the period under review, garment sourcing and export remained the major business of the Group and contributed approximately 82.4% to the Group's total turnover, an approximately 5.5% decrease over the same period in 2003. The Group has altered its product mix to produce more infants garments rather than women garments in response to the changes in customer needs. The product mix of infants wear and ladies wear changed from 23:69 for the six months ended 30 September 2003 to 48:44 for the parallel period this year. Turnover from this segment diminished by approximately 31.9% to approximately HK\$210,803,000 as compared to approximately HK\$309,760,000 for the same period last year, largely due to the lower selling price of the infants wear. This segment generated a net profit of approximately HK\$6,277,000 (six months ended 30 September 2003: approximately HK\$18,079,000) to the Group.

Geographically, the United States of America (the "US") continued to be the Group's major export market, accounting for approximately 75.7% of the Group's total turnover (six months ended 30 September 2003: approximately 80.4%). The remaining contribution from this segment was generated from sales to customers located in Hong Kong, Europe and the People's Republic of China (the "PRC").

Property investment

In the light of steady growth of the Hong Kong property market during the period under review, the property investment segment contributed approximately HK\$37,932,000 or 14.8% (six months ended 30 September 2003: approximately HK\$15,341,000 or 4.4%) to the Group's total turnover. Net profits of this segment reached approximately HK\$13,408,000 (six months ended 30 September 2003: approximately HK\$7,922,000). Investment properties, all of which are located in Hong Kong, provided a stable flow of income to the Group with a turnover of approximately HK\$12,623,000 (six months ended 30 September 2003: approximately HK\$9,085,000). As at 30 September 2004, the Group's commercial rental properties were 100% leased. Its industrial rental properties also maintained a high occupancy rate of over 90%.

The sale of residential units of Fa Yuen Plaza in Mongkok was well received and brought in approximately HK\$25,309,000 cash to the Group during the period (six months ended 30 September 2003: approximately HK\$6,256,000). At the period end date, approximately 68.8% of the available units were sold with the average selling price per square foot gross floor area increased from approximately HK\$3,200 for the six months ended 30 September 2003 to approximately HK\$3,500 for the same period this year.

As at 30 September 2004, the Group's entire property portfolio stood over HK\$512,081,000 (31 March 2004: approximately HK\$535,966,000).

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Prospects

Garment sourcing and export

The global economy is on the upward trend. However, market sentiments have been dampened by the volatile oil prices and the beginning of a rising interest rate cycle in the US. The short-term outlook is also clouded by the uncertainty stemming from the trade tensions between the US and the PRC. To prevent the Chinese imports from flooding the US market and harming their textile industry when the textile quotas expire on 1 January 2005, the US government may impose stringent import restrictions on a variety of Chinese textile products. We will constantly monitor the market conditions and adjust accordingly. The Group, armed with the well-developed sales network and sound business relationship with its clients, will also endeavour to expand its market share in the US and promote its brand name of "Mary Mac" targetting the fast growing PRC market through its office in New York.

Property investment

The Group is sanguine about the outlook of the local property market, anticipating progressive improvement in both consumer and investor sentiment with the encouraging land auction results, implementation of the Closer Economic Partnership Agreement and further extension of the "Individual Visit Scheme" for Mainland visitors. Rental income from the investment properties is expected to rise, especially for the retail shops located in prime retail areas like Causeway Bay, Tsim Sha Tsui and Mongkok, which are likely to achieve a better growth in turnover. The directors believe that the sale of the remaining residential units of Fa Yuen Plaza will continue to bring in considerable revenue to the Group. The Group will prudently seek opportunities for property investment or development to benefit from the growing economy and to enhance the shareholders' returns.

Significant Corporate Events

As jointly announced by the Company and Asia Alliance on 5 March 2004, a wholly-owned subsidiary of the Company has conditionally agreed to dispose of all the issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance, an associate of the Company, at a consideration of HK\$65,000,000 (the "Disposal"). The consideration shall be satisfied in cash, of which HK\$50,000,000 was received on 13 May 2004 and the remaining balance of HK\$15,000,000 shall be receivable after finalisation of the adjustment (as described in the said joint announcement dated 5 March 2004) in the mid of 2005. Completion of the Disposal took place on 17 May 2004. As the Group's bleaching and dyeing business was conducted only through Po Cheong and its subsidiary, the Group is no longer engaged in that business after the Disposal (except through its interest in Asia Alliance).

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Significant Corporate Events *(Cont'd)*

As announced by the Company on 11 May 2004, the Company proposed a rights issue of 441,224,462 rights shares of HK\$0.10 each at a subscription price of HK\$0.11 per rights share on the basis of one rights share for every two shares held. The Company raised approximately HK\$47,500,000 (net of expenses), out of which approximately HK\$40,000,000 has been used to repay the Group's bank borrowings and the balance will be applied as general working capital. Details of the rights issue are set out in the prospectus of the Company dated 7 June 2004.

As announced by the Company on 20 May 2004, the Company proposed a reduction in its authorised share capital from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued shares of HK\$0.10 each. A special resolution in respect of the proposed reduction was passed at the special general meeting of the Company held on 28 July 2004. Details of such proposed reduction are set out in the circular of the Company dated 29 June 2004.

As announced by the Company on 26 July 2004, the Company proposed to reduce the entire amounts standing to the credit of the share premium account and the capital reserve account of the Company and to apply part of the credits arising therefrom in the sum of HK\$1,785,508,000 to offset the accumulated losses of the Company as at 31 March 2004 in full and to transfer the remaining balance of HK\$227,555,000 to the contributed surplus account of the Company. A special resolution to approve the aforesaid proposal was passed at the special general meeting of the Company held on 23 August 2004. Details of the proposal are set out in the circular of the Company dated 30 July 2004.

Liquidity and Financial Resources

During the six months ended 30 September 2004, the Group financed its operations mainly by the net proceeds from the disposal of subsidiaries and the issue of rights shares in 2004, internal resources and bank borrowings. The Group's total bank borrowings (but excluding obligations under finance leases) declined by approximately 28.1% to approximately HK\$216,819,000 at the period end date (31 March 2004: approximately HK\$301,545,000), of which approximately 57.9% being short-term borrowings and approximately 42.1% being long-term borrowings. All the loans are secured and denominated in Hong Kong dollars with prevailing market interest rates. The Group's borrowings are mostly event driven, with little seasonality. As at 30 September 2004, the shareholders' fund of the Group amounted to approximately HK\$785,037,000 (31 March 2004: approximately HK\$667,215,000). The Group's gearing ratio, which was calculated on the basis of the total borrowings to the shareholders' fund, decreased substantially from approximately 0.45 as at 31 March 2004 to approximately 0.28 as at 30 September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Liquidity and Financial Resources *(Cont'd)*

The Group continued to sustain a good liquidity position. As at 30 September 2004, the Group had net current assets of approximately HK\$365,353,000 (31 March 2004: approximately HK\$277,992,000) and cash and cash equivalents of approximately HK\$68,447,000 (31 March 2004: approximately HK\$67,357,000). As at 30 September 2004, the current ratio of the Group was approximately 3.1 (31 March 2004: approximately 2.3), which was calculated on the basis of current assets of approximately HK\$538,843,000 (31 March 2004: approximately HK\$500,256,000) to current liabilities of approximately HK\$173,490,000 (31 March 2004: approximately HK\$222,264,000). The current ratio has improved, mainly due to the proceeds received from the disposal of subsidiaries and issue of rights shares during the period under review which not only reduced the Group's liabilities but also raised its level of current assets. Final dividend for the year ended 31 March 2004 amounting to approximately HK\$6,618,000 was paid in September 2004.

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Capital Structure

The Group had no debt securities or other capital instruments as at 30 September 2004 and up to the date of this report.

Material Acquisitions and Disposals

Apart from the disposal of Po Cheong as disclosed in "Significant Corporate Events" above, the Group had no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2004.

Charges on Group Assets

As at 30 September 2004, leasehold land and buildings, and investment properties with carrying amount of approximately HK\$9,448,000 (31 March 2004: approximately HK\$9,558,000) and approximately HK\$478,400,000 (31 March 2004: approximately HK\$478,400,000), respectively, were pledged to banks to secure the bank borrowings granted to the Group.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2004, the Group spent approximately HK\$1,549,000 (six months ended 30 September 2003: approximately HK\$16,482,000) on acquisition of property, plant and equipment.

The Group had no capital commitments as at 31 March 2004 and 30 September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Contingent Liabilities

The Group had no contingent liabilities as at 30 September 2004 (31 March 2004: approximately HK\$5,719,000).

As at 30 September 2004, the Group's banking facilities utilised to the extent of approximately HK\$216,819,000 (31 March 2004: approximately HK\$301,545,000) were supported by the Company's corporate guarantees given to the banks.

Significant Investment

As at 30 September 2004, the Group had investments in Hong Kong listed equity securities with an aggregate market value of approximately HK\$73,404,000 (31 March 2004: Nil). These securities were purchased during the period under review at a total cost of approximately HK\$44,734,000.

Save as disclosed above, the Group did not have any significant investment held or any significant investment plans as at 30 September 2004.

Employment and Remuneration Policy

As at 30 September 2004, the number of employees of the Group in Hong Kong and the US was about 60 and 14 respectively. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund for the Hong Kong employees and has made contributions to the state-sponsored pension scheme operated by the PRC government for the PRC employees. The Group also has a share option scheme to motivate valued employees.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2004, the interests and short positions of the directors and chief executives of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

A. Interests in the Company (Long Positions):

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	486,324,678	36.74%
Ms. Lui Yuk Chu (Note a)	Beneficiary of a trust	486,324,678	36.74%
Mr. Tsang Yiu Kai	Beneficial owner	149,993	0.01%

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

B. Interests in associated corporations (Long Positions):

(1) Asia Alliance

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of Asia Alliance
Mr. Koon Wing Yee (Note b)	Interest of spouse	128,259,324	35.93%
Ms. Lui Yuk Chu (Note b)	Beneficiary of a trust	128,259,324	35.93%

(2) Wellmake Investments Limited ("Wellmake") (Note c)

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 486,324,678 shares relate to the same block of shares in the Company. These 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 Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 486,324,678 shares by virtue of the SFO.
- (b) The 128,259,324 shares relate to the same block of shares in Asia Alliance. These shares were registered in the name of and 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 Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 128,259,324 shares by virtue of the SFO.
- (c) 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 2004, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 September 2004 was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

SHARE OPTION SCHEME

On 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Particulars of the share options, which were granted to the continuous contract employees of the Group under the Scheme, and their movements during the period under review were as follows:

Date of grant of share options	Number of share options (adjusted as appropriate)				Exercise price per share option HK\$ (note b)	Exercise period of share options
	As at 1 April 2004	Adjustments*	Lapsed during the period	As at 30 September 2004		
20 February 2004 (note a)	88,000,000	(88,000,000)	—	—	0.144	20 February 2004 to
	—	132,000,000	(132,000,000)	—	0.138*	19 August 2004

Notes:

- (a) The share options have no vesting period and are exercisable from the date of grant.
- (b) 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 the Company.

* The number of share options and the corresponding exercise price have been adjusted as a result of the rights issue of shares of the Company in June 2004.

No share options were granted, exercised or cancelled during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the persons (other than the directors or chief executives of the Company) who had an interest or a 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:

Long Positions:

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	486,324,678	36.74%
Accumulate More Profits Limited (<i>Note</i>)	Interest of controlled corporation	486,324,678	36.74%
Trustcorp Limited (<i>Note</i>)	Trustee	486,324,678	36.74%

Note: The 486,324,678 shares relate to the same block of shares in the Company. These 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 Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu, a director of the Company, and her family members other than spouse).

Save as disclosed above, as at 30 September 2004, 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 2004.

AUDIT COMMITTEE

Mr. Tsui Chun Kong has been appointed as an independent non-executive director and a member of the audit committee of the Company with effect from 15 September 2004. The current audit committee comprises three members, Mr. Wong Sui Wah, Michael, Mr. Pun Hei, Hectar and Mr. Tsui Chun Kong, who are independent non-executive directors of the Company. The audit committee has reviewed with the management and the Company's auditors 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 2004.

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 2004, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2004.

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

Hong Kong, 20 December 2004