On behalf of the board of directors (the "Board") of Easyknit International Holdings Limited (the "Company"), I am pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2005.

FINANCIAL RESULTS

For the year under review, the Group recorded a turnover of approximately HK$590,001,000, down approximately 16.4% from last year (2004: approximately HK$706,044,000). The decrease was mainly attributable to the change in product mix of the Group to sell more garments for infants, the selling price of which was around 57.1% lower than that of the garments for women, and downward price adjustment of the Group's textile products as a result of the elimination of the quota costs in January 2005. The disposal of its bleaching and dyeing business in May 2004 also led to the decline in turnover.

Gross profit fell approximately 6.7% to approximately HK$128,820,000 (2004: approximately HK$138,086,000), however, profit margin improved by approximately 11.2% to approximately 21.8% (2004: approximately 19.6%), primarily due to the sale of more infant wear, which generated a higher margin than selling ladies wear. The Group's infant products are mainly sold to the American chain stores and department stores.

Profit from operations rocketed more than 4.6 times to approximately HK$352,783,000 (2004: approximately HK$62,568,000) and net profit attributable to shareholders surged 1.5 times to approximately HK$356,353,000 (2004: approximately HK$140,830,000), which resulted largely from the reversal of deficit arising on revaluation of investment properties amounting to approximately HK$140,690,000, unrealised gain on other investments amounting to approximately HK$158,579,000, gain of approximately HK$14,149,000 on the disposal of Po Cheong International Enterprises Limited ("Po Cheong"), a then wholly-owned subsidiary of the Company, share of results of associates of approximately HK$2,876,000 and reduction in finance costs. Earnings per share rose significantly by approximately 76.5% to approximately HK$0.293 (2004: approximately HK$0.166).

Cost of sales went down by approximately 18.8% to approximately HK$461,181,000 (2004: approximately HK$567,958,000), reflecting the corresponding changes in the product mix and disposal of the bleaching and dyeing business. Coupled with stringent cost control measures, the total operating expenses reduced by approximately 25.2% to approximately HK$80,433,000 (2004: approximately HK$107,481,000).

Finance costs dropped by approximately 54.6% to approximately HK$3,566,000 (2004: approximately HK$7,855,000), principally by reason of repayment of certain bank loans totalled approximately HK$128,081,000 as well as the low interest rate level for the year under review.

BUSINESS REVIEW

During the year ended 31 March 2005, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women and property investment after the disposal of its bleaching and dyeing business in May 2004.

Garment sourcing and export

During the year under review, garment sourcing and export continued to be the principal business of the Group and contributed approximately 88.1% to the Group's total turnover, an approximately 4.4% increase over last year (2004: approximately 83.7%). The Group has altered its product mix to produce more infant garments to cater for the changes in customer needs. The product mix of infant wear and ladies wear was 35:56 during the year under review as compared to 24:67 of last year. Turnover from this segment diminished by approximately 12.1% to approximately HK$519,490,000 (2004: approximately HK$590,885,000), which was largely due to the relatively lower selling price of the infant wear and the reduction of sales amount of the "Mary Mac" brand name products, predominately resulting from the change in management of the regional office in the United States of America (the "US") during the year under review. This segment generated a profit of approximately HK$23,667,000 (2004: approximately HK$36,169,000).

Geographically, the US continued to be the Group's major export market, accounting for approximately 79.5% of the Group's total turnover (2004: approximately 74.5%). The remaining contribution from this segment was generated from sales to customers located in Europe, Mexico and Canada.

Property investment

The property segment contributed approximately 10.8% to the Group's turnover, amounting to approximately HK$63,535,000 (2004: approximately 8.1% or HK$57,498,000). Benefited from the growth of the Hong Kong property market during the year under review, profits from this segment shot up nearly 1.9 times to approximately HK$169,889,000 (2004: approximately HK$59,130,000). Investment properties, all of which are located in Hong Kong, provided a steady income to the Group with a turnover of approximately HK$24,345,000 (2004: approximately HK$23,074,000). The average rental income increased nearly 6%. As at 31 March 2005, the Group's commercial rental properties were 100% leased. Its industrial rental properties also maintained a high occupancy rate of over 80%. The building management fee income during the year was approximately HK$173,000 (2004: Nil).

The sale of residential units of Fa Yuen Plaza in Mongkok was well-received and generated approximately HK$39,017,000 cash inflow to the Group during the year under review (2004: approximately HK$34,424,000). As at 31 March 2005, approximately 81% of the available units were sold with the average selling price per square foot gross floor area increased from approximately HK$3,300 to approximately HK$3,500 for the year under review.

As at 31 March 2005, the Group's entire property portfolio stood over approximately HK$641,594,000 (31 March 2004: approximately HK$535,966,000).

PROSPECTS

Garment sourcing and export

To stem a rising tide of the Chinese textile imports following the lifting of the global trade quotas on textiles on 1 January 2005, the US, in May 2005, imposed safeguard quotas limiting the increase in 7 categories of Chinese textile imports to 7.5% this year by relying upon the terms of the accession of the People's Republic of China (the "PRC") to World Trade Organisation (the "WTO"). The PRC abolished its self-imposed export tariffs on 81 categories of textile products in June 2005, escalating trade tensions with the US. In June 2005, the European Union (the "EU") and the PRC also agreed to limit the growth of 10 categories of Chinese textile products to the EU to between 8% and 12.5% a year until the end of 2007. These safeguard measures have created uncertainties in the textile industry and may in turn impact the business of the Group. We will constantly monitor the market conditions and adjust accordingly.

The Group will continue to strengthen its well-developed sales network and business relationship with its clients and promote its brand name of "Mary Mac" targeting the fast growing PRC market through its regional office in New York. The Group would increase the portion of sales of the infant wear with higher profit margin so as to raise its profitability.

Property investment

Despite rising interest rates, the Group is optimistic about the outlook of the local property market owing to the improvement in both consumer and investor sentiment, mainly bought about by the encouraging land auction results, implementation of the Closer Economic Partnership Agreement and further extension of the "Individual Visit Scheme" for Mainland visitors.

As announced by the Company on 22 February 2005, two subsidiaries of the Company as vendors and Ms. Wong Ching Man or her nominee(s) as purchaser entered into two provisional agreements for the disposal of Shop Unit No. 19 on Ground Floor (the "Property 1") and Shop Unit No. 20 on Ground Floor and Shop Unit No. 20 on the First Floor (the "Property 2") of The Annex Land Building of Excelsior Plaza, Causeway Bay, Hong Kong (together the "Properties") at a consideration of HK$220,000,000 in aggregate. With the upturn in Hong Kong's property market, the directors consider that it is a good opportunity for the Group to dispose of the Properties at a gain of approximately HK$86,000,000 (before taxation and related expenses). The disposal of the Properties, which is expected to be completed on or before 3 August 2005, was approved by the shareholders of the Company at a special general meeting held on 22 April 2005. Details of this are set out in the circular of the Company dated 6 April 2005.

Apart from the Properties, the Group is currently holding other properties for rental purposes. Rental income from these properties is expected to rise, especially for the retail shops located in prime areas such as Causeway Bay, Tsimshatsui and Mongkok. Also, as the mortgage of the Property 2 will be repaid after its disposal, the Group will be able to save the expenses on interest of the mortgage and improve its gearing ratio as a whole. It is believed that the sales of the remaining units of the Fa Yuen Plaza will continue to contribute to the Group's revenue. The Group will prudently seek opportunities for property investment or development in order to benefit from the growing economy and to enhance the shareholders' returns.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2005, the Group financed its operations mainly by net proceeds from the disposal of subsidiaries and the issue of rights shares in 2004, internally generated resources and bank borrowings. As at 31 March 2005, the Group's total bank borrowings (but excluding obligations under finance leases) declined by approximately 37.9% to approximately HK$187,349,000 (31 March 2004: approximately HK$301,545,000), of which approximately 64.6% being short-term borrowings and approximately 35.4% 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 31 March 2005, the shareholders' fund of the Group amounted to approximately HK$1,065,484,000 (31 March 2004: approximately HK$667,215,000). The Group's gearing ratio, which was calculated based on the total borrowings to the shareholders' fund, decreased substantially from approximately 0.45 as at 31 March 2004 to approximately 0.18 as at 31 March 2005.

The Group continued to sustain a good liquidity position. As at 31 March 2005, the Group had net current assets of approximately HK$472,509,000 (31 March 2004: approximately HK$277,992,000) and cash and cash equivalents of approximately HK$83,901,000 (31 March 2004: approximately HK$67,357,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and US dollars. As at 31 March 2005, the Group's current ratio was approximately 3.43 (31 March 2004: approximately 2.25), which was calculated on the basis of current assets of approximately HK$667,042,000 (31 March 2004: approximately HK$500,256,000) to current liabilities of approximately HK$194,533,000 (31 March 2004: approximately HK$222,264,000). The improvement in the current ratio was mainly due to the proceeds received from the disposal of subsidiaries and issue of rights shares during the year, which not only reduced the Group's liabilities but also raised its level of current assets. During the year under review, the Group serviced its debts primarily through the proceeds from the rights issue conducted in 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 year under review. Hence, no financial instrument for hedging purposes was employed.

CAPITAL STRUCTURE

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. As a result of the rights issue, the issued share capital of the Company has been increased from HK$88,244,892.4 to HK$132,367,338.6 comprising 1,323,673,386 shares of HK$0.10 each with effect from 24 June 2004. 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 was 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 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.

The Group had no debt securities or other capital instruments as at 31 March 2005 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS

As jointly announced by the Company and Asia Alliance Holdings Limited ("Asia Alliance"), an associate of the Group, 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 at a consideration of HK$65,000,000 (the "Disposal"). The consideration of the Disposal has been subsequently adjusted down to HK$38,879,778, details of which are set out in the joint announcement of the Company and Asia Alliance dated 16 June 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).

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 March 2005.

CHARGES ON GROUP ASSETS

As at 31 March 2005, leasehold land and buildings, and investment properties with carrying amount of approximately HK$9,337,000 (31 March 2004: approximately HK$9,558,000) and approximately HK$619,010,000 (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 year ended 31 March 2005, the Group spent approximately HK$1,589,000 (2004: approximately HK$17,465,000) on acquisition of property, plant and equipment.

As at 31 March 2005 and 2004, the Group had no significant capital commitments.

CONTINGENT LIABILITIES

As at 31 March 2005, the outstanding amount of the Group's banking facilities utilised to the extent of approximately HK$188,913,000 (31 March 2004: approximately HK$301,545,000) were supported by the Company's corporate guarantees given to the banks and bills discounted with recourse were amounted to approximately HK$3,441,000 (31 March 2004: approximately HK$5,719,000).

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 March 2005.

SIGNIFICANT INVESTMENT

As at 31 March 2005, the Group had significant investments in a portfolio of Hong Kong listed equity securities with an aggregate market value of approximately HK$244,030,000 (31 March 2004: Nil). These securities were purchased during the year under review at a total cost of approximately HK$85,451,000. As a result, there was unrealised gain of approximately HK$158,579,000 recorded during the year under review due to the increase in the market value of these securities.

Saved as disclosed above, the Group did not have any significant investment held or any significant investment plans as at 31 March 2005.

FUTURE PLAN FOR MATERIAL INVESTMENTS

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

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2005, the number of employees of the Group in Hong Kong and the US was about 60 and 16 respectively. Employees' cost (including directors' emoluments) amounted to approximately HK$27,798,000 for the year under review (2004: approximately HK$39,302,000). 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 pension scheme for the US staff. The Group also has a share option scheme to motivate valued employees.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our staff and fellow directors for their contribution to the Group's development and cordial thanks to the continuing support of our customers, suppliers, business associates and shareholders.

On behalf of the Board

Koon Wing Yee
President and Chief Executive Officer

Hong Kong, 25 July 2005