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 2006.

FINANCIAL RESULTS

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK$489,715,000, representing a decrease of approximately 17.0% from last year (2005: approximately HK$590,001,000). The decrease was mainly due to the cancellation of quota system which affected the price that the Group tagged and reduction in the residential units available for sale of Fa Yuen Plaza in Mongkok during the year under review.

Gross profit fell approximately 30.6% to approximately HK$89,360,000 (2005: approximately HK$128,820,000), primarily because of shrinking profit margins amid increasingly fierce competition in the garment sourcing and export industry.

Profit attributable to shareholders dropped approximately 50.4% to approximately HK$172,851,000 (2005: approximately HK$348,469,000), which was largely due to the impairment loss on trade and other receivables of approximately HK$33,513,000 and share of loss of associates of approximately HK$4,548,000. This was partly offset by the gain arising on change in fair value of investment properties of approximately HK$189,730,000 and decrease in cost of sales. Basic earnings per share went down by approximately 54.2% to approximately HK$0.131 (2005: approximately HK$0.286).

Cost of sales dropped by approximately 13.2% to approximately HK$400,355,000 (2005: approximately HK$461,181,000), reflecting the decrease in sales for the year under review. The total operating expenses reduced by approximately 18.5% to approximately HK$62,148,000 (2005: approximately HK$76,218,000) as a result of imposing stringent cost control measures.

Finance costs increased by approximately 29.2% to approximately HK$4,609,000 (2005: approximately HK$3,566,000), principally due to the increase in interest rate during the year under review.

BUSINESS REVIEW

During the year ended 31 March 2006, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women and property investment.

Garment sourcing and export

During the year under review, garment sourcing and export continued to be the principal business of the Group and contributed approximately 93.7% to the Group's total turnover, an approximately 5.7% increase as compared to that of last year (2005: approximately 88.0%). However, turnover from this segment diminished by approximately 11.7% to approximately HK$458,666,000 (2005: approximately HK$519,490,000). This segment suffered a loss of approximately HK$21,342,000 (2005: a profit of approximately HK$23,667,000), largely due to the impairment loss on trade and other receivables of approximately HK$33,315,000 provided in respect of the deposits to a supplier paid by the Group as a result of the voluntary liquidation of such supplier, details of which are set out in the Company's announcement dated 3 November 2005. The Group continued to alter its product mix to cater for the changes in customer needs. The product mix of infant wear and ladies wear changed from 35: 56 for the year ended 31 March 2005 to 38: 46 for the year under review.

Geographically, the United States of America (the "US") remained to be the Group's major export market, from which approximately 86.3% of the Group's total turnover was generated (2005: approximately 79.5%).

The Hong Kong, European, Mexican and Canadian markets accounted for approximately 6.3%, 5.6%, 1.7% and 0.1% of the Group's total turnover respectively.

Property investment

For the year ended 31 March 2006, the property investment segment contributed approximately HK$31,049,000 or 6.3% to the Group's total turnover (2005: approximately HK$63,535,000 or 10.8%). Profit generated from this business segment went up approximately 25.1% to approximately HK$212,484,000 (2005: approximately HK$169,889,000), principally due to the gain arising on change in fair value of investment properties of approximately HK$189,730,000. This was partly offset by the decrease in rental income following the disposal of two properties in The Annex Land Building of Excelsior Plaza, Causeway Bay, Hong Kong (the "Properties") on 3 August 2005. Rental income from investment properties, which are all located in Hong Kong reduced to approximately HK$22,432,000 (2005: approximately HK$24,345,000). The average rental income of the Group decreased nearly 7.9% during the year under review. As at 31 March 2006, the Group's commercial rental properties were 100% leased. Its industrial rental properties also continued to maintain a high occupancy rate of 89%. The building management fee income during the year under review was approximately HK$268,000 (2005: approximately HK$173,000).

The sale of residential units of Fa Yuen Plaza in Mongkok generated approximately HK$8,349,000 cash inflow to the Group during the year under review (2005: approximately HK$39,017,000). As at 31 March 2006, approximately 88% of the available units were sold with the average selling price per square foot gross floor area increased from approximately HK$3,500 to approximately HK$4,100 during the year under review.

As at 31 March 2006, the Group's entire property portfolio stood over HK$604,126,000 (31 March 2005: approximately HK$641,594,000).

PROSPECTS

Garment sourcing and export

Although the re-imposition of the textile quotas by the US and the European Union still affects the Group's garment export business, the directors anticipate that the garment business of the Group will remain stable in view of the stable customer base and customer orders.

The Group will continue to retain and strengthen its well-developed sales network and business relationship with its existing clients and explore collaboration opportunities with potential customers. The Group will also expand its product range with infant wear as the focus in order to enlarge its income base.

Property investment

Commercial property investment will be the focal strategic development of the Group in the future. According to a recent international research on global rental expenditure, the office rental expenditure in Hong Kong ranked third globally and reached its peak in 2005. In addition, during the year under review, Hong Kong recorded a steady economic growth. According to the figures from the Hong Kong Trade Development Council, the real Gross Domestic Product has experienced continuous growth over the last two years, which has favoured the retail market in Hong Kong. Furthermore, sight-seeing spots in Hong Kong such as Ocean Park, Ngong Ping 360 and the Hong Kong Wetland Park, and the expanded Individual Visit Scheme have also helped boosting tourism and the retail industry in Hong Kong. Rental income is thus expected to increase, especially in prime areas such as Causeway Bay, Tsimshatsui and Mongkok. In light of the above favourable conditions to the local property market, the Group will grasp the business opportunities arisen and further strengthen its property investment in the territory in order to enhance its property portfolio and shareholders' returns.

Besides, the Group also regards the property market in Macau as a potential investment opportunity. As the gambling business in Macau flourishes, the Group believes that tourism and the retail market in Macau will grow dramatically. The Group will identify potential property development opportunities in Macau in a bid to expand its property portfolio outside Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2006, the Group financed its operations mainly by the net proceeds from the disposal of the Properties (as defined in "Business Review" above), internally generated resources and bank borrowings. The Group's total bank borrowings declined by approximately 98.0% to approximately HK$3,819,000 at 31 March 2006 (31 March 2005: approximately HK$187,349,000 (but excluding obligations under finance leases)), which are all short-term borrowings. All the loans are secured and denominated in Hong Kong dollars and US dollars with prevailing market interest rates. The Group's borrowings are mostly event driven, with little seasonality. As at 31 March 2006, the shareholders' fund of the Group amounted to approximately HK$1,030,928,000 (31 March 2005: approximately HK$1,053,688,000). The Group's gearing ratio, which was calculated on the basis of the total borrowings to the shareholders' fund, decreased substantially from approximately 0.178 as at 31 March 2005 to approximately 0.004 as at 31 March 2006.

The Group continued to sustain a good liquidity position. As at 31 March 2006, the Group had net current assets of approximately HK$281,721,000 (31 March 2005: approximately HK$472,509,000) and cash and cash equivalents of approximately HK$174,580,000 (31 March 2005: approximately HK$83,901,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and US dollars. As at 31 March 2006, the current ratio of the Group was approximately 4.78 (31 March 2005: approximately 3.43), which was calculated on the basis of current assets of approximately HK$356,172,000 (31 March 2005: approximately HK$667,042,000) to current liabilities of approximately HK$74,451,000 (31 March 2005: approximately HK$194,533,000). The improvement in the current ratio was mainly due to repayment of the majority of the Group's borrowings during the year ended 31 March 2006. During the year under review, the Group serviced its debts primarily through the proceeds from the disposal of the Properties and internally generated resources. Final dividend for the year ended 31 March 2005 amounting to approximately HK$6,618,000 was paid in September 2005.

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

The Group has no debt securities or other capital instruments as at 31 March 2006 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions or disposal of subsidiaries or associates during the year ended 31 March 2006.

CHARGES ON GROUP ASSETS

As at 31 March 2006, certain leasehold properties and investment properties of the Group with carrying amounts of approximately HK$9,116,000 (31 March 2005: approximately HK$9,337,000) and approximately HK$588,000,000 (31 March 2005: approximately HK$619,010,000), 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 2006, the Group spent approximately HK$1,077,000 (2005: approximately HK$1,589,000) on acquisition of property, plant and equipment.

As at 31 March 2005 and 31 March 2006, the Group had no significant capital commitments.

CONTINGENT LIABILITIES

As at 31 March 2006, the outstanding amount of the Group's banking facilities utilised to the extent of approximately HK$8,333,000 (31 March 2005: approximately HK$188,913,000) were supported by the Company's corporate guarantees given to the banks and the Group did not have bills discounted with recourse under the contingent liabilities (31 March 2005: approximately HK$3,441,000).

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 March 2006.

SIGNIFICANT INVESTMENT

As at 31 March 2006, the Group had significant investments in a portfolio of equity securities listed in Hong Kong, which comprised available-for-sale investments of approximately HK$93,987,000 and investments held for trading of approximately HK$3,600,000 (31 March 2005: other investments of approximately HK$244,030,000). All these investments were stated at fair value and their fair values were determined by reference to the bid prices quoted in active markets.

The available-for-sale investments of approximately HK$8,255,000 represented 33,286,100 shares of Capital Estate Limited ("Capital Estate"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") acquired by the Group during the year under review (the "Aggregated Acquisition"). The Aggregated Acquisition constitutes a discloseable transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and its details are set out in the circular of the Company dated 14 November 2005. Due to the changes in the issued share capital of Capital Estate, the number of shares held by the Group therein has been adjusted to 166,430,500, representing approximately 12.56% and 9.83% of the issued share capital of Capital Estate as at 31 March 2006 and the date of this report, respectively.

In respect of the listed securities performance for the year under review, the Group recorded gain on fair value changes of investments held for trading of approximately HK$12,000 (2005: unrealised gain on other investments of approximately HK$158,579,000).

Save as disclosed above, the Group did not have any significant investment held or any significant investment plans as at 31 March 2006.

FUTURE PLAN FOR MATERIAL INVESTMENTS

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

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2006, the number of employees of the Group in Hong Kong and the US was about 60 and 16 respectively. Staff costs (including directors' emoluments) amounted to approximately HK$27,152,000 for the year under review (2005: approximately HK$27,798,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up the Mandatory Provident Fund Scheme for the Hong Kong's 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.

Tse Wing Chiu, Ricky
President and Chief Executive Officer

Hong Kong, 21 July 2006