



EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 1218

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

The board of directors (the “Board”) of Easyknit International Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2004 together with comparative figures. These interim results have been reviewed by the Company’s audit committee.

| | NOTES | Six months ended 30 September | |
|---|-------|----------------------------------|----------------------|
| | | 2004 | 2003 |
| | | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) |
| Turnover | 3 | 255,711 | 352,600 |
| Cost of sales | | <u>(195,032)</u> | <u>(289,997)</u> |
| 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 | | <u>(4,323)</u> | <u>(3,228)</u> |
| Profit from operations | 3 & 4 | 49,122 | 11,883 |
| Unrealised gain on other investments | | — | 45,986 |
| Gain on disposal of subsidiaries | 9 | 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 | <u>(1,689)</u> | <u>(5,030)</u> |
| Profit before taxation | | 81,136 | 53,650 |
| Taxation | 6 | <u>(5,230)</u> | <u>(1,873)</u> |
| Profit before minority interests | | 75,906 | 51,777 |
| Minority interests | | <u>—</u> | <u>5,612</u> |
| Net profit for the period | | <u>75,906</u> | <u>57,389</u> |
| Basic earnings per share | 7 | <u>6.75 HK cents</u> | <u>6.79 HK cents</u> |

NOTES

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.

| | <u>Continuing operations</u> | | | | <u>Discontinued operation</u> | | |
|--|------------------------------------|----------------------------|---------------------------------|-----------------------|-------------------------------|---------------------|---------------------|
| | Garment sourcing and export | Property investment | Investment in securities | Loan financing | Bleaching and dyeing | Eliminations | Consolidated |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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> |

| | Continuing operations | | | | Discontinued operations | | | Consolidated HK\$'000 |
|---|---|------------------------------------|---|-------------------------------|---|-------------------------------------|--------------------------|--------------------------|
| | Garment sourcing and export HK\$'000 | Property investment HK\$'000 | Investment in securities HK\$'000 | Loan financing HK\$'000 | Tele- communications services and related investments HK\$'000 | Bleaching and dyeing HK\$'000 | Eliminations HK\$'000 | |
| 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 | <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 | <u>—</u> | <u>144</u> |
| | <u>1,689</u> | <u>5,030</u> |

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. GAIN ON 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 International Enterprises Limited ("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 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 | <u>17,320</u> |
| Total consideration | <u><u>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 | <u>(225)</u> |
| | <u><u>64,775</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.

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).

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).

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.

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 announcement.

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.

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.

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 Rules Governing the Listing of Securities on the Stock Exchange (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 for Securities Transactions by Directors of Listed Issuers (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.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of the interim results of the Group for the six months ended 30 September 2004 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules (in force immediately prior to 31 March 2004) will be published on the Stock Exchange's website in due course.

As at the date of this announcement, the Board comprises Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu as executive directors and Mr. Wong Sui Wah, Michael, Mr. Pun Hei, Hectar and Mr. Tsui Chun Kong as independent non-executive directors.

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

Hong Kong, 20 December 2004

* *for identification only*

Please also refer to the published version of this announcement in The Standard.