



Easyknit Enterprises Holdings Limited

永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 616)

ANNOUNCEMENT IN RELATION TO THE PROGRESS OF THE HUZHOU PROJECT

The Board wishes to provide updates on the progress of the Huzhou Project, further to the information in the Circulars.

BACKGROUND

Capitalised terms used in this announcement shall have the same meanings as defined in the circulars of the Company dated 21 February 2005 and 22 December 2005 (the “Circulars”) in relation to the Acquisition, the construction of the Plant and the proposed development of manufacturing operations in Huzhou City, Zhejiang Province, PRC (the “Huzhou Project”), unless the context requires otherwise.

The Huzhou Project is divided into two phases where Phase 1 will include: (i) the Acquisition; (ii) the development of the manufacturing operations on the Property which would initially comprise garment manufacturing and bleaching and dyeing capabilities; and (iii) the construction of the Plant. Phase 2 will principally comprise the development of knitting capability on the Property, and would commence construction upon completion of Phase 1.

At the special general meeting held on 11 March 2005, Shareholders had approved the investments in the Huzhou Project which involved capital commitment of up to HK\$200 million. Subsequently, the Further Supplemental Agreement which, inter alia stipulates the increase in the Group’s capital commitment in the Huzhou Project to approximately RMB519 million, was approved by the Shareholders at the special general meeting held on 9 January 2006. Notwithstanding the increase in cost of the Acquisition to approximately RMB39 million from the original estimate of RMB9.5 million due to changes in land policies, the Board wishes to inform that RMB519 million remains the Group’s maximum capital commitment required in respect of the Huzhou Project.

PROGRESS OF THE PROJECT

The Huzhou Project involves about 632 mu of land and its recent progress is as follows:

Garment production

- (a) As at the date hereof, the certificates of land use right of a total land area of 251 mu earmarked for garment production have been issued and delivered to the Group.
- (b) Construction of two blocks of factory premises and four blocks of workers' quarters has been substantially completed and are expected to commence commercial use in November 2008. The Group's Huzhou City office has in last September moved into an office unit at the factory premises.

Knitting operations

- (c) As at the date hereof, the certificate of land use right of a further 115 mu of land earmarked for knitting operations, was issued to the Group. The Huzhou Government has however not been able to deliver vacant possession of the land due to delays caused by the PRC's change in policies and the Huzhou Government's lack of resources to relocate the current occupants of the land.

Dyeing and bleaching operations

- (d) The certificate of land use right of the remaining portion of land earmarked for dyeing and bleaching operations has yet to be delivered by the Huzhou Government.

Negotiation is being carried out with the Huzhou Government to expedite the issuance of the outstanding certificates and the delivery of vacant possession of the remaining land. There are also continuing discussions with the Huzhou Government on the detailed terms as the Huzhou Project progresses.

FUNDING

As at 30 September 2008, the Company has made an aggregate investment of approximately RMB148 million in the Huzhou Project, which include (a) the consideration for the Acquisition of approximately RMB39 million; (b) the cost of the construction of approximately RMB93 million; and (c) the payment of deposit of approximately RMB16 million to the Huzhou Government's contractor for the construction of the dyeing and bleaching facilities.

The Company intends to finance the remaining capital commitment of up to approximately RMB371 million through internal resources, bank borrowings or other forms of financing available to the Group. As at 18 October 2008, the Group has cash balance of approximately HK\$103 million. The Company is in negotiations with banks for additional facilities and may also explore other forms of capital market financing such as placing of securities and rights issue of shares.

GENERAL

The Group is principally engaged in the bleaching, dyeing and knitting businesses.

By order of the Board
Easyknit Enterprises Holdings Limited
Kwong Jimmy Cheung Tim
Chairman and Chief Executive Officer

Hong Kong, 20 October 2008

As at the date hereof, the Board comprises Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu as executive directors, Mr. Tse Wing Chiu, Ricky as non-executive director and Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching as independent non-executive directors.

* *For identification only*