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## **Easyknit Enterprises Holdings Limited**

**永義實業集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 616)**

### **FURTHER ANNOUNCEMENT IN RELATION TO THE PROGRESS OF THE HUZHOU PROJECT**

**AND**

### **CHANGE OF USE OF PROCEEDS OF RIGHTS ISSUE AS A RESULT OF CHANGE IN LOCAL GOVERNMENT POLICY**

The Group was advised by the Zhili Town Government by a letter dated 6 February 2009 that the plans for the Huzhou Project have to be changed in a way that renders the Huzhou Project unviable.

As a result of changes required by the Zhili Town Government in the Huzhou Project, the Board has determined that it is no longer viable. The Board has resolved that it is not in the interests of Shareholders for the Company to invest further in the Huzhou Project, for the foreseeable future and not to use for that purpose the proceeds from the Rights Issue originally earmarked for the Huzhou Project. The Board will consider alternative uses for the relevant proceeds and, until suitable alternatives are found, the Board intends to keep the funds on deposit, or to invest the funds in “blue chip” securities or a combination of both.

The Board will also consider alternative uses for the buildings already constructed at the Huzhou Plant, taking into account alternative industries suggested by the Zhili Town Government.

As a result of the matters described in this announcement, all or some of the value of the Huzhou Project may require to be written off and if so that may materially and adversely affect the reported results and assets of the Group.

The Company will issue further announcements as and when appropriate.

## **Huzhou Project**

Certain events have come to the attention of the Board since the Company last updated Shareholders on the status of the Huzhou Project, in the Company's announcement dated 20 October 2008, and in the Prospectus. On 20 January 2009 the resident representative of the subsidiaries of the Company whose operations were intended to be part of the Huzhou Project were informed by officials of the Zhili Town Government that there were increasing concerns about the pollution of the Taihu Lake caused by the discharge of industrial waste. The Huzhou Project contemplated dyeing and bleaching operations that would produce large quantities of liquid industrial waste. The Zhili Town Government officials also indicated that further changes to operations in the Taihu Lake region were possible.

After enquiries by the resident's representative, the Zhili Town Government issued a letter dated 6 February 2009 to the relevant subsidiaries of the Company. The letter stated that due to the deterioration of the environment along the Taihu Lake area in the recent two years, and having thoroughly considered the improvement, adjustment and transformation of industries in the local villages and towns, the plans for the Huzhou Project had to be changed. In particular, the Huzhou Project plans for dyeing and printing of 36 million metres of high quality woven material per annum, weaving of 100,000 pounds of high quality material and manufacture of 90 million pieces of clothing would need to be adjusted accordingly. As these operations require the ability to discharge significant quantities of liquid waste and that will no longer be permitted, the Group has to abandon that aspect of the Huzhou Project, of which they were integral parts - without dyeing and bleaching operations on-site the weaving of materials and manufacture of clothing at the site is not commercially practicable.

The Zhili Town Government has suggested that the 558 mu of industrial land (the certificates of land use rights for 366 mu of which have already been issued and delivered to the Group, with the application for the remaining 192 mu currently in progress) planned to form part of the Huzhou Project may instead be used for industries such as electronics, machinery and communication, to be operated by wholly-owned enterprises, joint ventures or operations under other contractual arrangements but no relevant permits have yet been applied for.

The Board has reviewed and considered the changes required by the Zhili Town Government, and their impact on the Huzhou Project. In light of the change of circumstances, the Board is of the view that the Huzhou Project is no longer viable, and that it is in the best interests of the Company and its Shareholders as a whole to cease any further investment in the Huzhou Project, for the foreseeable future.

## **Use of Proceeds**

On 29 December 2008, the Company issued the Prospectus in connection with the Rights Issue.

It was disclosed in the Prospectus in the section headed “Reasons for the Rights Issue and Use of Proceeds” that the Company intended to utilise approximately HK\$58 million of the net proceeds from the Rights Issue to finance the construction and development of the Huzhou Project at the Huzhou Plant. The results of the Rights Issue were announced by the Company on 20 January 2009.

Since the Zhili Town Government has indicated that liquid waste can no longer be discharged into the Taihu Lake and the Huzhou Project entailed the discharge of large quantities of liquid waste, the Huzhou Project is now unviable. It would be inappropriate and not in the interests of Shareholders to use proceeds of the Rights Issue for the Huzhou Project and the Huzhou Project may have to be abandoned. The Board has resolved to change the use of those proceeds of the Rights Issue originally earmarked for the Huzhou Project. The Board will consider alternative uses for such funds, but until suitable alternatives are found, the Board proposes to keep the funds on deposit, or to invest the funds in “blue chip” securities or a combination of both. The Board will also consider alternative uses for the buildings already constructed at the Huzhou Plant, taking into account the alternative industries suggested by the Zhili Town Government in its letter.

The Board (including the independent non-executive directors) considers that the change in the use of proceeds is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Investors should be aware that as a result of the matters described in this announcement, all or some of the value of the Huzhou Project may require to be written off and if so that may materially and adversely affect the reported results and assets of the Group. The Company will issue further announcements as and when appropriate in accordance with the Listing Rules.

## DEFINITIONS

The following terms have the following meanings in this announcement unless the context otherwise requires:

“Board”	the board of Directors
“Company”	Easyknit Enterprises Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the securities of which are listed on the main board of Stock Exchange
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huzhou Plant”	the plant being constructed and developed at Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC
“Huzhou Project”	manufacturing operations in relation to the production, bleaching, dyeing, weaving and knitting operations and waste water treatment plant that are or were planned to be located at the Huzhou Plant
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus dated 29 December 2008 containing details of the Rights Issue
“Rights Issue”	the issue of 667,499,000 rights shares of HK\$0.01 each at a subscription price of HK\$0.15 per rights share on the basis of ten rights Shares for every one existing Share held
“Shareholder(s)”	holder(s) of Share(s)

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhili Town Government”	the People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC

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

Hong Kong, 24 February 2009

*As at the date of this announcement, 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*