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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)

**PROPOSED CAPITAL REORGANISATION
AND
PROPOSED RIGHTS ISSUE
OF 293,699,560 RIGHTS SHARES
OF HK\$0.01 EACH AT HK\$0.38 PER RIGHTS SHARE
ON THE BASIS OF FOUR RIGHTS SHARES
FOR EVERY ADJUSTED SHARE HELD
AND
RESUMPTION OF TRADING**

Underwriter of the Rights Issue



KINGSTON SECURITIES LIMITED

1. PROPOSED CAPITAL REORGANISATION

As at the date of this announcement, the authorised share capital of the Company is HK\$200,000,000 comprising 20,000,000,000 Shares of HK\$0.01 each, of which 734,248,900 Shares have been issued and fully paid. The Company proposes to put forward for approval by the Shareholders the Capital Reorganisation involving:-

- (i) Issued Capital Reduction — the issued share capital of the Company will be reduced by cancelling the paid-up capital to the extent of HK\$0.009 on each issued Share such that the nominal value of each of the issued Shares will be reduced from HK\$0.01 to HK\$0.001;
- (ii) Share Consolidation — upon the Issued Capital Reduction becoming effective, every 10 issued Reduced Shares of HK\$0.001 each will be consolidated into one Adjusted Share of HK\$0.01 each;

- (iii) Share Premium Reduction — the entire amount standing to credit of the share premium account of the Company will be reduced to nil; and
- (iv) Set-Off against Accumulated Losses — the credit amount arising from the Issued Capital Reduction and the Share Premium Reduction will be transferred to the contributed surplus account of the Company, and the application of the appropriate amounts therein to set off against the total accumulated losses of the Company.

The Capital Reorganisation is conditional upon, inter alia, the approval of the Shareholders at the SGM.

2. PROPOSED RIGHTS ISSUE

The Company proposes to raise approximately HK\$111.6 million (before expenses) by way of the rights issue of 293,699,560 Rights Shares at a subscription price of HK\$0.38 per Rights Share on the basis of four (4) Rights Shares for every Adjusted Share held on the Record Date. The Company plans to use the net proceeds from the Rights Issue to finance potential property acquisitions and for general working capital of the Group.

The Rights Issue is fully underwritten by the Underwriter. The Rights Issue is conditional upon, inter alia: (i) the passing of resolutions at the SGM to approve the Rights Issue and the Capital Reorganisation and (ii) the Capital Reorganisation becoming effective. Further details of the underwriting arrangements are set out in the paragraph headed “Underwriting Agreement dated 17 August 2009”. If the conditions are not fulfilled (or waived, where applicable) or the Underwriting Agreement is terminated, the Rights Issue will not proceed.

The number of Rights Shares to be issued pursuant to the Rights Issue represents four times the Company’s issued share capital after the Capital Reorganisation and 80.0% of the Company’s adjusted and enlarged issued share capital immediately following the Capital Reorganisation coming into effect and the completion of the Rights Issue. As the Rights Issue will increase the issued share capital of the Company (after the Capital Reorganisation) by more than 50%, the Rights Issue is subject to approval from Independent Shareholders at the SGM, pursuant to Rule 7.19(6)(a) of the Listing Rules.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date. In order for their owners to be registered as members on the Record Date, any transfers of the Shares (with the relevant share certificates) must be lodged for registration by 4:00 p.m. on Thursday, 8 October 2009.

Easyknit International, through Landmark Profits, is interested in 232,790,657 Shares (or 23,279,065 Adjusted Shares upon the Capital Reorganisation coming into effect) representing approximately 31.7% of the issued share capital of the Company. Landmark Profits has signed the Undertaking in favour of the Company and the Underwriter pursuant to which it has conditionally undertaken, inter alia, that the Shares held by it on the date of the Undertaking will remain registered in its name at the close of business on the Record Date and that the Rights Shares to be provisionally allotted to it in respect of those Adjusted Shares (representing 93,116,260 Rights Shares) will be taken up and paid for in full by it.

In accordance with the Listing Rules, Landmark Profits and its associates will abstain from voting on the resolution(s) to approve the Rights Issue at the SGM. An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of the Rights Issue. The members of the independent board committee of the Company have no material interest in the Rights Issue. Access Capital Limited has been appointed as the independent financial adviser to advise the independent board committee of the Company and the Independent Shareholders as to whether the terms and conditions of the Rights Issue are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

A Circular containing, inter alia: (i) further information on the Capital Reorganisation; (ii) further information on the Rights Issue; (iii) a letter of recommendation from the independent board committee of the Company in respect of the Rights Issue; (iv) a letter of advice from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders on the Rights Issue; and (v) a notice of the SGM, will be despatched to the Shareholders as soon as practicable.

3. RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9.30 a.m. on Tuesday, 18 August 2009 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on Wednesday, 26 August 2009.

1. PROPOSED CAPITAL REORGANISATION

Background

As at the date of this announcement, the authorised share capital of the Company is HK\$200,000,000 comprising 20,000,000,000 Shares of HK\$0.01 each, of which 734,248,900 Shares have been issued and fully paid. The issued share capital of the Company is HK\$7,342,489. The Company proposes to put forward the Capital Reorganisation and the terms expressed below, for approval by the Shareholders:

- (i) Issued Capital Reduction — the issued share capital of the Company will be reduced by cancelling the paid-up capital to the extent of HK\$0.009 on each issued Share such that the nominal value of each of the issued Shares will be reduced from HK\$0.01 to HK\$0.001;
- (ii) Share Consolidation — upon the Issued Capital Reduction becoming effective, every 10 issued Reduced Shares of HK\$0.001 each will be consolidated into one Adjusted Share of HK\$0.01 each;
- (iii) Share Premium Reduction — the entire amount standing to credit of the share premium account of the Company will be reduced to nil; and
- (iv) Set-Off against Accumulated Losses — the credit amount arising from the Issued Capital Reduction and the Share Premium Reduction will be transferred to the contributed surplus account of the Company, and the application of the appropriate amounts therein to set off against the total accumulated losses of the Company.

Upon the Capital Reorganisation becoming effective but before the completion of the Rights Issue, based on the 734,248,900 Shares in issue at the date of this announcement, the share capital of the Company will be as follows:

Authorised share capital : HK\$200,000,000.00 divided into 20,000,000,000
Shares of HK\$0.01 each

Issued share capital : HK\$734,248.90 divided into 73,424,890 Adjusted Shares of HK\$0.01 each

Unissued share capital : HK\$199,265,751.10 divided into 19,926,575,110 Adjusted Shares of HK\$0.01 each

The Capital Reorganisation is conditional upon, inter alia, the approval of the Shareholders at the SGM. Details of the arrangements with regard to parallel trading arrangements, Adjusted Shares odd lot matching services and the free exchange of Adjusted Share certificates will be included in the Circular to be despatched to the Shareholders.

Financial effects of the Capital Reorganisation

Other than by reason of expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interests of the Shareholders (save as disclosed below) as a whole. The Directors believe that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group.

Reasons for the Capital Reorganisation

There is currently an accumulated loss in the balance sheet of the Company. Using the credit amount arising from the Issued Capital Reduction and the Share Premium Reduction, the Company will set-off the accumulated losses, thus allowing greater flexibility for the Company for future distributions to the Shareholders. As at the date of this announcement, the Board has no present intention to make any distributions to the Shareholders.

The Share Consolidation will increase the trading price per board lot, and hence reduce the overall transaction and handling costs for dealing in the Adjusted Shares. The Board believes that the Capital Reorganisation is beneficial to the Company and the Shareholders as a whole.

The issued Adjusted Shares will rank pari passu in all respects with each other, and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders. Any fractional entitlements to the Adjusted Shares will be aggregated and sold (less expenses) for the benefit of the Company.

After the completion of the Capital Reorganisation and the Rights Issue (based on the theoretical ex-rights price of approximately HK\$0.55 per Adjusted Share), the market value of the Adjusted Shares will be above the par value of the Adjusted Shares of

HK\$0.01 each. The Board is of the opinion that the proposed par value of the Adjusted Shares of HK\$0.01 each provides flexibility for the issue of new Adjusted Shares in the future. The Board has, however, no present intention to issue further Adjusted Shares other than pursuant to the proposed Rights Issue.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon, inter alia, the following:

- (a) the passing of the necessary resolutions by the Shareholders at the SGM to approve the Capital Reorganisation;
- (b) compliance with the relevant legal procedures and requirements under the Listing Rules and the Companies Act to effect the Capital Reorganisation; and
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares.

Expected effective date of the Capital Reorganisation

Subject to the above conditions being fulfilled, the Capital Reorganisation is expected to become effective at 9:30 a.m. on Wednesday, 14 October 2009.

2. PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	Four (4) Rights Shares for every Adjusted Share held on the Record Date
Number of Shares in issue as at the date of this announcement	:	734,248,900 Shares
Number of Adjusted Shares after the Capital Reorganisation becoming effective	:	73,424,890 Adjusted Shares
Number of Rights Shares	:	293,699,560 Rights Shares
Subscription price per Rights Share	:	HK\$0.38

The number of Rights Shares to be issued pursuant to the Rights Issue represents four times the Company's issued share capital after the Capital Reorganisation and 80.0% of the Company's enlarged issued share capital immediately following the Capital Reorganisation coming into effect and the completion of the Rights Issue.

As at the date of this announcement, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

Subscription Price

The subscription price for the Rights Shares is HK\$0.38 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares or, where applicable, on application for excess Rights Shares under the Rights Issue. Such Subscription Price represents:

	Before the Capital Reorganisation <i>HK\$</i>	After the Capital Reorganisation <i>HK\$</i>	Premium/ (Discount) <i>(%)</i>
Subscription Price	0.038	0.38	
(a) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.125	1.25	(69.6)
(b) Theoretical ex-rights price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.055	0.55	(30.9)
(c) Average closing price per Share for the last 5 full trading days quoted on the Stock Exchange up to and including the Last Trading Day	0.131	1.31	(71.0)
(d) Average closing price per Share for the last 10 full trading days quoted on the Stock Exchange up to and including the Last Trading Day	0.133	1.33	(71.4)
(e) Net asset value per Share based on the audited net asset value of the Group of approximately HK\$356,580,000 as at 31 March 2009 as stated in the annual report of the Company for the year ended 31 March 2009 and 734,248,900 Shares in issue at the date of this announcement	0.486	4.86	(92.2)

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the scale of the Rights Issue, historical price trends and recent market prices of the Shares.

The Directors note the discounts set out above. However, taking into consideration the benefits of the Rights Issue as discussed below in the paragraph headed “Reasons for the Rights Issue and the use of proceeds”, the Directors consider the terms of the Rights Issue, including the Subscription Price, and the underwriting commission, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Basis of provisional allotment

Four (4) Rights Shares for every Adjusted Share held on the Record Date. Acceptances of all or any part of a Qualifying Shareholder’s provisional allotment can be made only by completing the PAL and lodging the same with a remittance for the Rights Shares being accepted.

Status of the Rights Shares

The Rights Shares, when fully-paid, will rank pari passu in all respects with the Adjusted Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares.

Fractions of Rights Shares

Fractional entitlements, if any, to Rights Shares will not be issued but will be aggregated and sold, if a premium (net of expenses) can be obtained, for the benefit of the Company. Any unsold Rights Shares arising out of the aggregation of fractions of Rights Shares will be available for excess application on EAFs by Qualifying Shareholders.

Share certificates and refund cheques for Rights Issue

Subject to the fulfilment of the conditions of the Rights Issue, one share certificate for all fully-paid Rights Shares is expected to be posted on or before Thursday, 5 November 2009 to those who have accepted or (where applicable) applied for, and paid for the Rights Shares, by ordinary post at their own risk.

Refund cheques in respect of wholly or partly unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Thursday, 5 November 2009 by ordinary post to the applicants at their own risk.

Qualifying Shareholders

To qualify for the Rights Issue, investors must be registered as a member of the Company at the close of business on the Record Date, and be Qualifying Shareholders.

In order to be registered as members of the Company at the close of business on the Record Date, owners must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Thursday, 8 October 2009.

The Company will send the Prospectus Documents to the Qualifying Shareholders.

Non-Qualifying Shareholders

The Prospectus will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong and Bermuda. If there are any Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong as at the Record Date, the Company will exclude such Overseas Shareholders from the Rights Issue if based on advice provided by appropriate legal advisers, the Directors consider that such exclusion is necessary or expedient on account either of the legal restrictions under the laws of the relevant place or requirements of the relevant regulatory body or stock exchange in that place pursuant to Rule 13.36(2) of the Listing Rules. As the Rights Shares will not be offered to such Non-Qualifying Shareholders, the Company will send the Prospectus only (without any PAL and EAF) to the Non-Qualifying Shareholders for their information.

The Company will make arrangements for Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealing in the nil-paid Rights Shares commences and before dealings in nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be paid to the Non-Qualifying Shareholders in Hong Kong dollars pro rata to their respective shareholding as soon as possible, provided that individual amounts of HK\$100 or less shall be retained by the Company for its own benefit. Any unsold entitlements of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

Closure of register of members

The register of members of the Company will be closed from Friday, 9 October 2009 to Tuesday, 13 October 2009 (both dates inclusive). No transfers of Shares will be registered during this period.

Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

Applications for excess Rights Shares can be made only by completing an EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (i) preference will be given to applications for topping-up odd lots holdings to whole lot holdings; and
- (ii) subject to availability of excess Rights Shares after allocation under principle (i) above, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess Rights Shares based on a pro-rata basis based on the excess Rights Shares applied for by them, with board lots allocation to be made on best efforts' basis.

Investors with their Shares held by a nominee should note that the nominee is a single Shareholder for the purposes of the Rights Issue. Accordingly, investors whose Shares are registered in the names of nominees should note that the aforesaid arrangements in relation to the allocation of excess Rights Shares will not be extended to beneficial owners individually. Investors with their Shares held by a nominee are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Investors whose Shares are held by nominee(s) and who would like to have their names registered on the register of members of the Company, must lodge all necessary documents with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for completion of the relevant registration by 4:00 p.m. on Thursday, 8 October 2009.

The latest time for acceptance of Rights Shares and application for excess Rights Shares is 4:00 p.m. on Thursday, 29 October 2009, or such later date or time as may be agreed between the Company and the Underwriter.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listings of, and permission to deal on the Stock Exchange (i) in the Adjusted Shares in issue after the Capital Reorganisation becomes effective; and (ii) in the Rights Shares, in both their nil-paid and fully-paid forms. It is expected that dealings in the Adjusted Shares will commence on Wednesday, 14 October 2009 and dealings in the Rights Shares in their nil paid form will take place from Friday, 16 October 2009 to Friday, 23 October 2009, both days inclusive.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, both in board lots of 2,000, registered in the branch register of members of the Company in Hong Kong, will be subject to the payment of stamp duty in Hong Kong.

Conditions of the Rights Issue

The Rights Issue is conditional upon each of the following:

1. the passing of resolutions at the SGM to approve the Rights Issue and the Capital Reorganisation;
2. the delivery to the Stock Exchange and registration by the Registrar of Companies in Hong Kong on or prior to the Posting Date of one copy of each of the Prospectus Documents each duly certified in compliance with section 342C of the Companies Ordinance (and all other documents required by law to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance, the Companies Act and the Listing Rules;
3. the posting of the Prospectus Documents to the Qualifying Shareholders on the Posting Date;
4. compliance by the Company with certain obligations under the Underwriting Agreement;

5. the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms prior to commencement of dealings of the Rights Shares in their nil-paid form, either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any and where relevant) and such listings and permission to deal not having been withdrawn or revoked on or before 4:00 p.m. on the Settlement Date;
6. if required, the Bermuda Monetary Authority granting its consent to the issue of Rights Shares;
7. the Shares remaining listed on the Stock Exchange at all times prior to the Settlement Date and the current listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than 5 trading days (other than any suspension pending clearance of this announcement) and no indication being received before 4:00 p.m. on the Settlement Date from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of the Rights Issue or in connection with the terms of the Underwriting Agreement or for any other reason;
8. delivery by the Company to the Underwriter of the Undertaking duly executed by Landmark Profits and fulfillment by Landmark Profits with all its obligations under the Undertaking; and
9. the Capital Reorganisation becoming effective.

In the event that the conditions 1 to 4 (other than the conditions 1 and 2 which cannot be waived) have not been satisfied and/or waived in whole or in part by the Underwriter on or before the Posting Date or in the event that the conditions 5 to 9 (other than the conditions in Clause 5 and 6 which cannot be waived) have not been satisfied and/or waived in whole or in part by the Underwriter on or before 4.00 p.m. on the Settlement Date (or, in each case, such later date as the Underwriter and the Company may agree), all liabilities of the Company and the Underwriter shall cease and determine and neither party shall have any claim against the other (except that certain expenses of the Underwriter shall remain payable by the Company) and the irrevocable undertaking by Landmark Profits to accept its entitlement under the Rights Issue will lapse and the Rights Issue will not proceed.

3. UNDERWRITING AGREEMENT DATED 17 AUGUST 2009

The Underwriter has agreed to fully underwrite 200,583,300 Rights Shares (being all the 293,699,560 Rights Shares under the Rights Issue less the 93,116,260 Rights Shares which will be provisionally allotted to Landmark Profits, and which Landmark Profits has undertaken to accept). To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Underwriter and its ultimate controlling shareholder are third parties independent of the Company and connected persons of the Company.

In the Underwriting Agreement, the Underwriter has confirmed that (a) the Underwriter shall and shall cause the sub-underwriters to procure independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with; and (b) each of the Underwriter and the sub-underwriters (and their respective ultimate beneficial owners) is not a party acting in concert with each other.

Under the Underwriting Agreement, the Underwriter has confirmed that it will not and the sub-underwriters will not (together with any party acting in concert with them) hold 20% or more of the voting rights of the Company upon completion of the Rights Issue. The Underwriter has also undertaken to the Company that it will make arrangements such that the Underwriter, any sub-underwriter and/or any purchaser for the Rights Shares procured by it and/or any sub-underwriter, will not, whether individually or collectively, be required to make a general offer under Rule 26 of the Takeovers Code. As at the date of this announcement, the Underwriter has confirmed to the Company that it has entered into sub-underwriting agreements.

The Underwriter has confirmed that it shall and shall cause the sub-underwriters to procure independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

Commission

The Company will pay the Underwriter an underwriting commission of 1.0% of the aggregate subscription price of the Rights Shares underwritten by it. The Directors believe that the underwriting commission accords with market rates.

Undertaking from Landmark Profits

As at the date of this announcement, Easyknit International, through Landmark Profits, is interested in 232,790,657 Shares, representing approximately 31.7% of the total issued share capital of the Company. Upon the Capital Reorganisation coming into effective, Landmark Profits will beneficially own 23,279,065 Adjusted Shares. Pursuant to the Underwriting Agreement, Landmark Profits has signed the Undertaking in favour of the Company and the Underwriter pursuant to which it has conditionally undertaken, inter alia, that the Shares held by it on the date of the Undertaking will remain registered in its name at the close of business on the Record Date and that the Rights Shares to be provisionally allotted to it in respect of those Adjusted Shares (representing 93,116,260 Rights Shares) will be taken up and paid for in full by it. The obligations of Landmark Profits under the Undertaking are conditional upon (i) the Underwriting Agreement becoming unconditional in accordance with its terms; and (ii) the approval by shareholders of Easyknit International of the Undertaking at a general meeting of the shareholders of Easyknit International at or before the Acceptance Time, if necessary. If these conditions are not fulfilled all liabilities of Landmark Profits thereunder shall cease and determine and the undertaking shall lapse, and no party shall have any claims against the other for matters referred to in the Undertaking. Landmark Profits will not apply for any excess Rights Shares.

Termination of the Underwriting Agreement

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by it to the Company at any time prior to 4:00 p.m. on the Settlement Date if there occurs:

- (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the absolute opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

If, at or prior to 4:00 p.m. on the Settlement Date:

- (i) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
- (ii) the Underwriter receives notification pursuant to the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its absolute opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
- (iii) the Company shall, after any matter or event referred to in the relevant clauses of the Underwriting Agreement has occurred or comes to the Underwriter's attention fail promptly to send out any announcements or circulars (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company,

the Underwriter shall be entitled (but not bound) by notice in writing issued by the Underwriter to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under this Agreement.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither it nor the Company shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter the fees and expenses (other than the underwriting commission) payable by the Company pursuant to the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

4. WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Wednesday, 7 October 2009. Dealings in the Rights Shares in the nil-paid form will take place from Friday, 16 October 2009 to Friday, 23 October 2009 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares, Adjusted Shares and/or Rights Shares in their nil-paid form who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in Shares or Adjusted Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Friday, 16 October 2009 to Friday, 23 October 2009 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed.

5. EXPECTED TIMETABLE

The expected timetable for the Rights Issue is set out below:

Last day of dealings in Shares on a cum-rights basis.....	Tuesday, 6 October 2009
First day of dealings in Shares on an ex-rights basis	Wednesday, 7 October 2009
Latest time for lodging transfers of Shares in order to qualify for Rights Issue.....	4:00 p.m. on Thursday, 8 October 2009
Register of members closes	Friday, 9 October 2009 to Tuesday, 13 October 2009 (both dates inclusive)
SGM	Tuesday, 13 October 2009
Record Date	Tuesday, 13 October 2009

Effective time of the Capital Reorganisation	9.30 a.m. on Wednesday, 14 October 2009
Register of members re-opens	Wednesday, 14 October 2009
Despatch of Prospectus Documents	Wednesday, 14 October 2009
Commencement of dealing in Adjusted Shares	Wednesday, 14 October 2009
Original counter for trading in Shares (in board lots of 2,000 Shares) closes	Wednesday, 14 October 2009
Temporary counter for trading in Adjusted Shares in board lots of 200 Adjusted Shares (in the form of existing share certificates) opens	Wednesday, 14 October 2009
Free exchange of existing share certificates for new share certificates commences	Wednesday, 14 October 2009
First day of dealings in nil-paid Rights Shares	Friday, 16 October 2009
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on Tuesday, 20 October 2009
Last day of dealings in nil-paid Rights Shares	Friday, 23 October 2009
Latest time for acceptance of the Rights Issue as well as application for excess Rights Shares and payment of consideration thereof	4:00 p.m. on Thursday, 29 October 2009
Original counter for trading in Adjusted Shares (in board lots of 2,000 Adjusted Shares) re-opens	Thursday, 29 October 2009
Parallel trading in Adjusted Shares (in the form of new and existing certificates) begins	Thursday, 29 October 2009
Designated broker starts to stand in the market to provide matching services	Thursday, 29 October 2009
Latest time for Rights Issue and Underwriting Agreement to become unconditional	4:00 p.m. on Tuesday, 3 November 2009

Announcement of results of acceptance and excess applications of the Rights Issue	Wednesday, 4 November 2009
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Thursday, 5 November 2009
Despatch of certificates for fully-paid Rights Shares	Thursday, 5 November 2009
First day of dealings in fully-paid Rights Shares	Monday, 9 November 2009
Temporary counter for trading in Adjusted Shares in board lots of 200 Adjusted Shares (in the form of existing share certificates) closes	Wednesday, 18 November 2009
Parallel trading in Adjusted Shares (in the form of new and existing certificates) ends	Wednesday, 18 November 2009
Designated broker ceases to stand in the market to provide matching services	Wednesday, 18 November 2009
Free exchange of existing share certificates for new share certificates ends	Tuesday, 24 November 2009

Dates or deadlines specified in this announcement for events in the timetable for (or otherwise in relation to) the Rights Issue refer to Hong Kong local time and are indicative only and may be varied by agreement between the Company and the Underwriter. Any changes to the expected timetable will be notified to Shareholders.

6. SHAREHOLDING IN THE COMPANY

The shareholdings in the Company (i) before the Capital Reorganisation and Rights Issue; (ii) immediately after the Capital Reorganisation but before completion of the Rights Issue; (iii) after the Capital Reorganisation and immediately after completion of the Rights Issue assuming all Rights Shares are taken up by Qualifying

Shareholders or sold in the market; and (iv) after the Capital Reorganisation and immediately after completion of the Rights Issue assuming only Landmark Profits takes up its provisional allotment of Rights Shares are and will be as follows:

	Existing shareholding		Immediately after the Capital Reorganisation but before the completion of the Rights Issue		After completion of Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders or sold in the market)		After completion of the Rights Issue (assuming only Landmark Profits takes up its Rights Shares)	
	Shares	%	Adjusted Shares	%	Adjusted Shares	%	Adjusted Shares	%
Landmark Profits	232,790,657	31.7	23,279,065	31.7	116,395,325	31.7	116,395,325	31.70
Public	501,458,243	68.3	50,145,825	68.3	250,729,125	68.3	50,145,825	13.66
Underwriter (<i>Note</i>)	—	—	—	—	—	—	200,583,300	54.64
Total	<u>734,248,900</u>	<u>100.0</u>	<u>73,424,890</u>	<u>100.0</u>	<u>367,124,450</u>	<u>100.0</u>	<u>367,124,450</u>	<u>100.00</u>

Note: The table above is for illustration purposes only. Under the Underwriting Agreement, the Underwriter has confirmed that it will not and the sub-underwriters will not (together with any party acting in concert with them) hold 20% or more of the voting rights of the Company upon completion of the Rights Issue. The Underwriter has also undertaken to the Company that it will make arrangements such that the Underwriter, any sub-underwriter and/or any purchaser for the Rights Shares procured by it and/or any sub-underwriter, will not, whether individually or collectively, be required to make a general offer under Rule 26 of the Takeovers Code. As at the date of this announcement, the Underwriter has confirmed to the Company that it has entered into sub-underwriting agreements. The Underwriter has confirmed that it shall and shall cause the sub-underwriters to procure independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

7. REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in the bleaching, dyeing and knitting businesses. As stated in the annual report of the Group for the year ended 31 March 2009, the Board has expanded the Group's business activities to property investment and on 3 July 2009, the Company announced the proposed acquisition of two companies, which are named as purchasers in the sale and purchase agreements of two commercial properties in Hong Kong at an aggregate consideration of approximately HK\$91.7 million.

The gross proceeds of the Rights Issue will be approximately HK\$111.6 million. The estimated expenses of the Rights Issue amount to approximately HK\$2.6 million and will be borne by the Company. The estimated net proceeds of the Rights Issue will therefore be approximately HK\$109.0 million.

Further to the aforesaid two proposed acquisitions, the Board has continued to look for potential investment opportunities in Hong Kong in order to build up its property portfolio. The Company intends to utilise (i) approximately HK\$70.0 million of the net proceeds from the Rights Issue to finance potential property acquisitions; and (ii) the remaining approximately HK\$39.0 million for the general working capital of the Group.

Given the uncertain credit environment which has adversely affected the financial markets in the past year, the Directors are of the view that it is prudent to finance the Group's long-term growth with long-term funding in the form of equity, which will not have refinancing risk. The Directors believe the Rights Issue is an appropriate way to raise capital to enhance the Company's capital base.

The Rights Issue also allows the Company to increase its capital base without diluting the shareholdings of Shareholders who decide to take up in full their provisional allotment of Rights Shares. On this basis, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to raise capital through the Rights Issue.

8. CAPITAL RAISING ACTIVITIES DURING PAST 12 MONTHS

The capital raising activities of the Company during the 12 months immediately preceding the date of this announcement are summarised below. Save as set out below, the Company has not carried out any other capital raising activities during that period.

Date of announcement	Event	Net proceeds raised	Intended use of proceeds from fund raising	Actual use of proceeds as at the date of this announcement
12 November 2008	Rights issue on the basis of 10 rights shares for every one Share held	HK\$98.0 million	HK\$58 million for Huzhou Project HK\$40 million for general working capital of the Group	As the Group has ceased its investment in the Huzhou Project (as set out in the announcement of the Company dated 24 February 2009), the original HK\$58 million which was earmarked for the Huzhou Project has been redesignated for property acquisitions. In this respect, approximately HK\$8.1 million has been utilised as deposit for the acquisition of two companies as announced by the company on 3 July 2009, and a further HK\$45.6 million has been designated for the payment of the balance of the purchase price for the acquisition of two commercial properties.

9. GENERAL

In accordance with the bye-laws of the Company, the Capital Reorganisation will be subject to the approval by the Shareholders at the SGM. Shareholders and potential investors should exercise caution in dealing in the Shares. As the Rights Issue will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.19(6)(a) of the Listing Rules, the Rights Issue will be subject to approval from Independent Shareholders at the SGM.

In accordance with the Listing Rules, Landmark Profits and its associates will abstain from voting on the resolution(s) to approve the Rights Issue at the SGM. An independent board committee of the Company comprising the independent

non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of the Rights Issue. The members of the independent board committee of the Company have no material interest in the Rights Issue. Access Capital Limited has been appointed as the independent financial adviser to advise the independent board committee of the Company and the Independent Shareholders as to whether the terms and conditions of the Rights Issue are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

A Circular containing, inter alia (i) further information on the Capital Reorganisation; (ii) further information on the Rights Issue; (iii) a letter of recommendation from the independent board committee of the Company in respect of the Rights Issue; (iv) a letter of advice from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders on the Rights Issue; and (v) a notice of the SGM, will be despatched to the Shareholders as soon as practicable.

Subject to the Capital Reorganisation being approved by the Shareholders and the approval of the Rights Issue by the Independent Shareholders at the SGM and the Capital Reorganisation becoming effective, the Prospectus Documents containing further information on the Rights Issue will be despatched to the Qualifying Shareholders on the Posting Date, and the Prospectus will be despatched to the Non-Qualifying Shareholders for information only on the Posting Date. Shareholders and potential investors should exercise caution when dealing in the Shares.

10. RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Tuesday, 18 August 2009 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on Wednesday, 26 August 2009.

DEFINITIONS

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

“Acceptance Time” 4:00 p.m. on 29 October 2009 (or such other time or date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment for, Rights Shares)

“Access Capital Limited”	a corporation licensed to carry out business type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO, which is not a connected person of the Company, the independent financial adviser to the independent board committee and the Independent Shareholders
“acting in concert”	the meaning ascribed thereto in the Takeovers Code
“Adjusted Share(s)”	shares of HK\$ 0.01 each in the capital of the Company upon the Capital Reorganisation becoming effective
“associate(s)”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
“Capital Reorganisation”	the Issued Capital Reduction, the Share Consolidation, the Share Premium Reduction and the Set-Off against Accumulated Losses
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Circular”	the circular containing, <i>inter alia</i> , further information on the Capital Reorganisation and the Rights Issue, together with the notice of SGM to approve the relevant resolutions
“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 the Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“connected persons”	the meanings ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company

“EAF(s)”	the excess application form(s) for application for excess Rights Shares proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Easyknit International”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Group”	the Company and its subsidiaries
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huzhou Project”	the development and construction of garment, bleaching, dyeing, knitting manufacturing operations and a waste water treatment plant on the land of about 632 mu in area located at the west of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC and the south of Hongtang Harbour of the PRC
“Independent Shareholders”	Shareholders other than Landmark Profits and its associates
“Issued Capital Reduction”	the proposal for the reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK\$0.009 on each issued Share such that the nominal value of each of the issued Shares will be reduced from HK\$0.01 to HK\$0.001
“Landmark Profits”	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Easyknit International, which is the beneficial owner of 232,790,657 Shares, representing approximately 31.7% of the issued shares of the Company and is a controlling shareholder of the Company
“Last Trading Day”	17 August 2009, being the last trading day before the suspension of the trading in the Share, pending the release of this announcement

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Issue to such Overseas Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in that place
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Posting Date”	14 October 2009 (or such other date as the Underwriter may agree in writing with the Company as the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus to the Non-Qualifying Shareholders (as the case may be))
“PRC”	the People’s Republic of China
“Prospectus”	a prospectus containing details of the Rights Issue to be despatched to Shareholders on the Posting Date in connection with the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	13 October 2009 (or such other date as the Underwriter may agree in writing with the Company as the date by reference to which entitlements to the Rights Issue are to be determined)

“Reduced Share(s)”	issued shares of HK\$0.001 each in the capital of the Company upon completion of the Issued Capital Reduction and before the Share Consolidation
“Rights Issue”	the proposed rights issue of 293,699,560 Rights Shares at a subscription price of HK\$0.38 per Rights Share on the basis of four (4) Rights Shares for every Adjusted Share held on the Record Date
“Rights Share(s)”	293,699,560 Adjusted Share(s) proposed to be issued and allotted under the Rights Issue
“Set-Off against Accumulated Losses”	the transfer of the credit amount arising from the Issued Capital Reduction and the Share Premium Cancellation to the contributed surplus account of the Company, and the application of the appropriate amounts therein to set-off against the total accumulated losses of the Company (details of which are set out above)
“Settlement Date”	3 November 2009 being the third Business Day following the Acceptance Time (or such later date as the Underwriter and the Company may agree in writing)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company expected to be held on Tuesday, 13 October 2009 at which resolutions will be proposed to consider and, if thought fit, approve the Capital Reorganisation and the Rights Issue
“Share Consolidation”	the consolidation of every 10 issued Reduced Shares of HK\$0.001 each into one Adjusted Share of HK\$0.01 each
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the existing share capital of the Company
“Share Premium Reduction”	the reduction of the entire amount standing to the credit to the share premium account of the Company to nil
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscription Price”	the subscription price of HK\$0.38 per Rights Share under the Rights Issue
“subsidiaries”	the subsidiaries (as “subsidiary” is defined in the Listing Rules) of the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
”Undertaking”	the conditional irrevocable undertaking dated 17 August 2009 from Landmark Profits to the Company and the Underwriter as described in the section headed “Undertaking from Landmark Profits” in this announcement
“Underwriter”	Kingston Securities Limited, a deemed licensed corporation to carry out business in type 1 (dealing in securities) regulated activities under the SFO
“Underwriting Agreement”	the underwriting agreement dated 17 August 2009, as supplemented by a side letter dated 21 August 2009, entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

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

Hong Kong, 25 August 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*