
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you have sold or transferred all your shares in Easyknit Enterprises Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of the Company in connection with a special general meeting of the Company to be held on Tuesday, 13 October 2009.

This circular is not and does not constitute an invitation or an offer to acquire, purchase or subscribe for shares or other securities of the Company.



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**

Underwriter of the Rights Issue



KINGSTON SECURITIES LIMITED

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

**Access
Capital**

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter the right to terminate its obligations on the occurrence of certain force majeure events. The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter 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

* For identification only

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(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, undertakings, representations or warranties 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 the Underwriting Agreement.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither the Underwriter 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.

It should be noted that the Shares will be dealt in on an ex-rights basis from Wednesday, 7 October 2009. Dealings in the Rights Shares in their 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 dealing in the Adjusted Shares or 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 or may not proceed.

A notice convening the SGM of the Shareholders to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. on Tuesday, 13 October 2009 is set out on pages 67 to 69 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit to the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

A letter of advice from Access Capital Limited, the independent financial adviser to the Independent Board Committee, is set out on pages 34 to 49 of this circular.

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

“Acceptance Date and Time”	4:00 p.m. on 29 October 2009 (or such other 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”	Access Capital Limited, a corporation under the SFO to conduct regulated activities of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management), 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
“Announcement”	the announcement of the Company dated 25 August 2009 relating to the Capital Reorganisation and the Rights Issue
“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
“Company” or “Easyknit Enterprises”	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 meaning ascribed thereto in the Listing Rules

DEFINITIONS

“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, the PRC
“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors, namely, Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching
“Independent Shareholders”	Shareholders other than Landmark Profits and its associates
“Independent Third Party(ies)”	independent third party(ies) not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries, or their respective 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

DEFINITIONS

“Last Trading Day”	17 August 2009, being the last trading day before the suspension of the trading in the Shares pending the release of the Announcement
“Latest Practicable Date”	8 September 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“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 the 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 the business on the Record Date and whose address(es) as shown on such register is/are 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 the 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(s) on the register of members of the Company at the close of business on the Record Date

DEFINITIONS

“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 (on the assumption that the Capital Reorganisation has already taken place on the Record Date, and references throughout this circular should be construed accordingly)
“Rights Share(s)”	293,699,560 Adjusted Share(s) proposed to be allotted and issued 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 Reduction 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
“Settlement Date”	3 November 2009 being the third Business Day following the Acceptance Date and 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 to be held on Tuesday, 13 October 2009 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 share capital of the Company
“Share Premium Reduction”	the reduction of the entire amount standing to the credit of the share premium account of the Company to nil
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“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 circular
“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

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, undertakings, representations or warranties 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,

TERMINATION OF THE UNDERWRITING AGREEMENT

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 the Underwriting 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.

EXPECTED TIMETABLE

Set out below is an indicative timetable for the implementation of the Capital Reorganisation and the Rights Issue. The timetable is subject to change. The Company will notify the Shareholders of any changes to the expected timetable as and when appropriate.

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 dealings 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

EXPECTED TIMETABLE

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 for events in this 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.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES AND FOR APPLICATION AND PAYMENT FOR EXCESS RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares and for application and payment for excess Rights Shares will be changed if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning
 - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
 - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Acceptance Date. Instead, the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares does not take place on the Acceptance Date and Time, the dates mentioned in the “Expected Timetable” in this section may be affected. An announcement will be made by the Company in such event.

LETTER FROM THE BOARD



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 616)

Executive Directors:

Mr. Kwong Jimmy Cheung Tim
(Chairman & Chief Executive Officer)
Ms. Lui Yuk Chu (Deputy Chairman)

Non-executive Director:

Mr. Tse Wing Chiu, Ricky

Independent Non-executive Directors:

Mr. Kan Ka Hon
Mr. Lau Sin Ming
Mr. Foo Tak Ching

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place
of business in Hong Kong:*

7th Floor
Hong Kong Spinners Building, Phase 6
481-483 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

11 September 2009

To the Shareholders

Dear Sir or Madam,

**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**

INTRODUCTION

On 25 August 2009, the Company announced the proposed Capital Reorganisation and the proposed Rights Issue.

**For identification only*

LETTER FROM THE BOARD

Subject to the approval of the Capital Reorganisation by Shareholders at the SGM and the Capital Reorganisation becoming effective and the fulfillment of the relevant conditions, 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. The Company will provisionally allot four (4) Rights Shares for every Adjusted Share held on the Record Date. The Rights Issue is not available to the Non-Qualifying Shareholders.

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 is subject to approval of the Independent Shareholders at the SGM.

The Independent Board Committee, comprising Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching (being the independent non-executive Directors and who have no material interest in the Rights Issue), has been established to advise the Independent Shareholders in respect of the Rights Issue. In accordance with the Listing Rules, Landmark Profits and its associates will abstain from voting on the resolution to approve the Rights Issue at the SGM. Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee 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.

The purpose of this circular is to provide you with, among other things, (i) information on the Capital Reorganisation; (ii) 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 Access Capital to the Independent Board Committee and the Independent Shareholders on the Rights Issue; and (v) a notice of the SGM.

PROPOSED CAPITAL REORGANISATION

Background

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200,000,000 comprising 20,000,000,000 Shares of HK\$0.01 each, of which 734,248,900 Shares had 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;

LETTER FROM THE BOARD

- (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 Latest Practicable Date, the share capital of the Company will be as follows:

Authorised share capital	:	HK\$200,000,000.00 divided into 20,000,000,000 Adjusted 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. 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.

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. 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 an appropriate amount therein will be applied to set-off against the total accumulated losses of the Company, thus allowing greater flexibility for the Company for future distributions to the Shareholders. 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.

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

LETTER FROM THE BOARD

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 resolution 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.

Fractional entitlements to Adjusted Shares

Fractions of Adjusted Shares, if any, arising from and upon the Share Consolidation to which the Shareholders are otherwise entitled will not be issued to Shareholders but will be aggregated and sold, if possible, and any proceeds will be retained for the benefit of the Company.

Free exchange of the Adjusted Share certificates and trading arrangements

Subject to the Capital Reorganisation becoming effective, dealings in the Adjusted Shares are expected to commence on Wednesday, 14 October 2009. Parallel trading arrangements will be agreed with the Stock Exchange and will be operated from 9:30 a.m. on Thursday, 29 October 2009 to 4:10 p.m. on Wednesday, 18 November 2009 (both days inclusive).

Upon the Capital Reorganisation becoming effective, the arrangements proposed for dealings in the Adjusted Shares are expected to be as follows:

- (i) From 9:30 a.m. on Wednesday, 14 October 2009, the existing counter for trading in Shares in board lots of 2,000 Shares will be temporarily closed. A temporary counter will be established for trading in Adjusted Shares in board lots of 200 Adjusted Shares. Share certificates for Adjusted Shares in the form of existing share certificates of the Shares may only be traded at the temporary counter.

LETTER FROM THE BOARD

- (ii) With effect from 9:30 a.m. on Thursday, 29 October 2009, the existing counter will be re-opened for trading in the Adjusted Shares in board lots of 2,000 Adjusted Shares. Only new share certificates for the Adjusted Shares may be traded at the existing counter.
- (iii) From 9:30 a.m. on Thursday, 29 October 2009 to 4:10 p.m. on Wednesday, 18 November 2009, both days inclusive, parallel trading will be permitted at the two counters mentioned in paragraphs (i) and (ii) above.
- (iv) The temporary counter for trading in the Adjusted Shares in board lots of 200 Adjusted Shares (in the form of existing share certificates for the Shares) will be removed after the close of trading at 4:10 p.m. on Wednesday, 18 November 2009.
- (v) With effect from 9:30 a.m. on Thursday, 19 November 2009, trading of Adjusted Shares will only be carried out in the original counter in board lots of 2,000 Adjusted Shares (in the form of new share certificates for the Adjusted Shares).

The existing share certificates for Shares will only be valid for delivery, trading and settlement purposes for the period up to Wednesday, 18 November 2009 and thereafter will not be accepted for delivery, trading and settlement purposes. Shareholders may, during the period from Wednesday, 14 October 2009 to Tuesday, 24 November 2009, submit their share certificates for Shares to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, in exchange, at the expense of the Company, for new share certificates for the Adjusted Shares. Thereafter, share certificates for the Adjusted Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate issued or cancelled, whichever is higher.

Nevertheless, share certificates for the Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for Adjusted Shares at any time. It is expected that new share certificates for Adjusted Shares will be available for collection within 10 Business Days from the date of submission of the share certificates for Shares to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at the address stated above, for exchange. The existing share certificates for Shares are orange in colour and the new share certificates for Adjusted Shares will be light brown in colour so as to distinguish them from the certificates for existing Shares.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of Adjusted Shares, the Company has appointed Kingston Securities Limited to provide a matching service, on a best efforts basis, to those Shareholders who wish to acquire odd lots of Adjusted Shares to make up a full board lot, or to dispose of their holdings of odd lots of Adjusted Shares. Shareholders who wish to utilise the service should contact Ms. Rosita Kiu from Kingston Securities Limited at (852) 2298 6215 or at Suite 2801, 28th Floor One International Finance Centre, 1 Harbour View Street Central, Hong Kong, during the period from 9:30 a.m. on Thursday, 29 October 2009 to 4:10 p.m. on Wednesday, 18 November 2009, both days inclusive.

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Holders of Adjusted Shares in odd lots should note that successful matching of the sale and purchase of odd lots of Adjusted Shares will not be guaranteed. Shareholders are advised to consult their professional advisers if they are in doubt about the above arrangement.

PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after the Capital Reorganisation becomes effective, and is conditional upon that happening.

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 Latest Practicable Date	:	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 Latest Practicable Date, 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.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders. The Company will send copies of the Prospectus to the Non-Qualifying Shareholders, for their information only, but the Company will not send the PAL and EAF to the Non-Qualifying Shareholders.

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

In order to be registered as members of the Company on the Record Date, investors 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Thursday, 8 October 2009.

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Closure of registered of members

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

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 or when a transferee of nil-paid Rights Shares applies for Rights Shares. Such Subscription Price represents:

	Before the Capital Reorganisation	After the Capital Reorganisation	Premium/ (Discount)
	<i>HK\$</i>	<i>HK\$</i>	<i>(%)</i>
<i>Subscription Price</i>	0.038	0.38	
(a) Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	0.076	0.76	(50.0)
(b) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.125	1.25	(69.6)
(c) 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)
(d) 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)
(e) 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)
(f) 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 Latest Practicable Date	0.486	4.86	(92.2)

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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 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

The basis of the provisional allotment shall be 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.

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.

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.

Shareholders with registered addresses outside Hong Kong

Based on the register of members of the Company as at the Latest Practicable Date, there were 2 Shareholders with registered addresses in Malaysia, and 2 Shareholders with registered addresses in Macau.

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Based on a legal opinion obtained from the Company's legal advisers in Malaysia, the offering of the Rights Issue to the Overseas Shareholders with registered addresses in Malaysia is not prohibited under applicable Malaysian laws but is subject to certain requirements involving the lodging of this circular and the Prospectus Documents with the relevant authorities. Accordingly, this circular and the Prospectus Documents will be filed with the Securities Commission of Malaysia. In view of this, the Directors have decided to extend the Rights Issue to the Overseas Shareholders with registered addresses in Malaysia.

The Company has also been advised by its legal advisers on the laws of Macau that there is no legal restriction under the applicable legislation of Macau or requirement of any relevant regulatory body or stock exchange with respect to the offer of the Rights Issue to the Overseas Shareholders with registered addresses in Macau. In view of this, the Directors have also decided to extend the Rights Issue to the Overseas Shareholders with registered addresses in Macau.

Such Overseas Shareholders, together with the Shareholders with registered addresses in Hong Kong, are Qualifying Shareholders.

For the purposes of the Rights Issue, the Company therefore does not, as at the Latest Practicable Date, have any Non-Qualifying Shareholders.

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 the 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 on a pro-rata basis based on the excess Rights Shares applied by them, with board lots allocation to be made on best efforts basis.

Investors with their Shares held by nominee(s) 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 arrangement 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.

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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 26th Floor, 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 will be 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.

Listing and dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listing 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.

No part of the share capital of the Company is listed or dealt in, and no listing or permission to deal is being or is proposed to be sought, on any other stock exchange.

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. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Shareholders should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS. 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;

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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 copies 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 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 the 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 conditions 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.

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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. The Underwriter has confirmed to the Company that it has entered into sub-underwriting agreements.

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 Latest Practicable Date, Easyknit International, through Landmark Profits, was 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 effect, 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

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of Easyknit International at or before the Acceptance Date and 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, undertakings, representations or warranties 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

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- (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 the Underwriting 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.

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 their 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.

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 sale and purchase agreements for two commercial properties in Hong Kong at an aggregate consideration of approximately HK\$91.7 million.

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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.

SHAREHOLDING OF 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	31.7
Public	501,458,243	68.3	50,145,825	68.3	250,729,125	68.3	50,145,825	13.7
Underwriter (Note)	—	—	—	—	—	—	200,583,300	54.6
Total	734,248,900	100.0	73,424,890	100.0	367,124,450	100.0	367,124,450	100.0

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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. 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.

The Underwriter and its ultimate controlling shareholders are Independent Third Parties and are not parties acting in concert with Landmark Profits. The sub-underwriters and their ultimate beneficial owners are Independent Third Parties and are not parties acting in concert with Landmark Profits and the Underwriter.

In the event that the Underwriter and the sub-underwriters are required to take up the Rights Shares pursuant to their underwriting obligations, the Underwriter and the sub-underwriters shall 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.

The Company will ensure the compliance with the public float requirements under Rule 8.08 of the Listing Rules upon completion of the Rights Issue.

BUSINESS REVIEW AND PROSPECTS OF THE GROUP

During the year ended 31 March 2009, the Group was principally engaged in the businesses of bleaching, dyeing and knitting.

For the year ended 31 March 2009, the Group recorded a turnover of approximately HK\$59,960,000, a decrease of approximately 20.0% over last year (2008: approximately HK\$74,923,000). The Group recorded a gross loss of approximately HK\$1,621,000 (2008: gross profit of approximately HK\$9,202,000). The gross loss was due to the increase in fixed production cost per unit as a result of decrease in sales and the increase in direct material costs during the year under review.

Loss attributable to Shareholders increased by approximately 166.4% to approximately HK\$47,457,000 (2008: loss of approximately HK\$17,811,000). The increase in loss was mainly due to the impairments of approximately HK\$8,269,000 and HK\$15,325,000 made on recognising the decrease in value of the manufacturing assets of the Group and the construction in progress of the Huzhou Project respectively, and the allowance of approximately HK\$3,793,000 made for doubtful debts.

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Bleaching and dyeing

The bleaching and dyeing business continued to be the major business of the Group and contributed to approximately 99.86% of the Group's total turnover for the year ended 31 March 2009 (2008: 99.96%). Taking into account the portion of inter-segment sales of approximately HK\$3,307,000 (2008: nil), turnover of this segment decreased by approximately 15.63% to approximately HK\$63,186,000 (2008: approximately HK\$74,891,000). This segment suffered a loss of approximately HK\$16,522,000 (2008: loss of approximately HK\$2,323,000). The loss was due to the increase in fixed production cost per unit as a result of decrease in sales, the increase in direct material costs, the allowance for doubtful debts of approximately HK\$3,793,000 made and impairment loss in respect of property, plant and equipment of approximately HK\$8,269,000 recognised for the year.

Knitting

Turnover for the knitting business accounted for approximately 0.14% (2008: 0.04%) of the Group's turnover for the year ended 31 March 2009. External sales of approximately HK\$81,000 were recorded for the knitting business during the year under review (2008: approximately HK\$32,000). Taking into account the portion of inter-segment sales of approximately HK\$37,835,000 (2008: approximately HK\$8,455,000), turnover derived from this segment rose by approximately 346.75% to approximately HK\$37,916,000 (2008: approximately HK\$8,487,000). Despite the increase in turnover, loss of approximately HK\$5,045,000 was recorded for this segment (2008: loss of approximately HK\$1,362,000). The increase in loss was due to the rise in the price of cotton yarn, a raw material for knitting production, during the year under review.

Geographical analysis

The Group's turnover is mainly derived from sales made to customers in Hong Kong with manufacturing operations located in the PRC.

Huzhou Project

During the year, two blocks of factory premises and four blocks of workers' quarters have been completed on the land for garment manufacturing operation in respect of the Group's project in constructing knitting, bleaching and dyeing and garment manufacturing operations in Zhili Town, Huzhou City, China. To recognise the relevant completion, a corresponding cost of HK\$101,144,000 has been transferred from the construction in progress to the buildings. The land use right certificate of the remaining portion of land earmarked for bleaching and dyeing operation was received by the Group in August 2009.

An announcement was published by the Company on 24 February 2009 concerning the Group having been advised by the Zhili Town Government by a letter dated 6 February 2009 that the plans for the Huzhou Project have to be changed due to the deterioration of the environment along the Taihu Lake area in the recent two years. The dyeing and bleaching operations, being an integral part of the Huzhou Project plan, may discharge significant quantities of liquid waste. Any such discharge will no longer be permitted.

LETTER FROM THE BOARD

The Zhili Town Government has suggested that the land for 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. No relevant permits have yet been applied for by the Group.

As a result of changes required by the Zhili Town Government, the Board has determined that the Huzhou Project as planned for bleaching and dyeing, knitting and garment production is no longer viable for the foreseeable future but shall seek new input to the land acquired. It is in the best interests of the Group to cease any further investment in the Huzhou Project as originally planned. As a result of the cessation, full impairment of approximately HK\$15,325,000 has been made against the remaining balance in the construction in progress of the Huzhou Project. The Board has also considered that it would be inappropriate and not in the interests of Shareholders to use the proceeds from all previous rights issues of the Company's Shares for the Huzhou Project as originally planned.

The Board will consider alternative uses for the land acquired and the buildings already constructed at the Huzhou Project, taking into account the alternative industries suggested by the Zhili Town Government in its letter.

Prospect

The Directors anticipate that the businesses of the Group will feel the impact of a declining market. Faced with present worldwide adverse financial conditions, the Group will focus in implementing more effective controls in production cost and improving its product quality in order to serve the customers which have continued to place orders with the Group. If the adverse conditions prevails, the Company may look for other more profitable businesses.

As regard to the Huzhou Project, the Directors will continue to keep track of the transfer of the remaining two parcels of land to the Group. Together with the Huzhou Government, the Group is looking at other options for the use of the land acquired which will be of benefit to the Group.

LETTER FROM THE BOARD

CAPITAL RAISING ACTIVITIES DURING PAST 12 MONTHS

The capital raising activities of the Company during the 12 months immediately preceding the Latest Practicable Date 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 Latest Practicable Date
12 November 2008	Rights issue on the basis of 10 rights shares for every one Share held	HK\$98.0 million	HK\$58.0 million for Huzhou Project HK\$40.0 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\$58.0 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.

THE SGM

A notice convening the SGM to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. on Tuesday, 13 October 2009 for the purpose of considering and, if thought fit, approving the Capital Reorganisation and the Rights Issue is set out on pages 67 to 69 of this circular.

Landmark Profits, which is the controlling shareholder of the Company, holds approximately 31.7% of the issued share capital of the Company as at the Latest Practicable Date. In accordance with the Listing Rules, Landmark Profits and its associates will abstain from voting on the resolution to approve the Rights Issue at the SGM. The Independent Board Committee, comprising Mr. Kan Ka Hon,

LETTER FROM THE BOARD

Mr. Lau Sin Ming and Mr. Foo Tak Ching (being the independent non-executive Directors and who have no material interest in the Rights Issue), has been established to make recommendations to the Independent Shareholders in respect of voting on the resolution to approve the Rights Issue at the SGM by way of poll.

A form of proxy for use at the SGM is enclosed. If you are not able to attend the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof, if you so wish.

PERMISSION OF THE BERMUDA MONETARY AUTHORITY

Permission under the Exchange Control Act 1972 of Bermuda (as amended) (and regulations made thereunder) has been granted by the Bermuda Monetary Authority in respect of the issue of the Shares (including the Rights Shares) to persons regarded as non-residents of Bermuda for exchange control purposes, subject to the requirement that the Shares are listed on the Stock Exchange. In granting such permission and in accepting the Prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any statements made or opinions expressed in the Prospectus Documents.

VOTING BY POLL

The votes at the SGM will be taken on a poll. The Company will appoint scrutineers to handle vote-taking procedures at the SGM. The results of the poll will be published on the websites of the Stock Exchange and the Company after the SGM in accordance with Rule 13.39 of the Listing Rules.

RECOMMENDATION

The Directors are of the opinion that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the special resolution to be proposed at the SGM.

In relation to the Rights Issue, your attention is drawn to the letter from the Independent Board Committee on pages 32 to 33 and the letter from Access Capital, set out on pages 34 to 49 of this circular. The Independent Board Committee, having taken into account the advice of Access Capital, considers that the terms of the Rights Issue are fair and reasonable and the proposed resolution in relation to the Rights Issue are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the aforesaid resolution to be proposed at the SGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I to III of this circular.

Yours faithfully,
For and on behalf of
Easyknit Enterprises Holdings Limited
Kwong Jimmy Cheung Tim
Chairman and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 616)

11 September 2009

To the Independent Shareholders

Dear Sirs or Madam,

**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**

We refer to the circular dated 11 September 2009 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings herein unless the context requires otherwise.

We have been appointed as the Independent Board Committee and to advise the Independent Shareholders in respect of the Rights Issue. Access Capital has been appointed as the independent financial adviser of the Company to advise us in this respect.

Your attention is drawn to the letter from the Board set out on pages 11 to 31 of the Circular, which sets out information relating to, inter alia, the Rights Issue. We also draw your attention to the letter from Access Capital as set out on pages 34 to 49 of the Circular, which contains its advice to us regarding the Rights Issue.

* *For identification only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors and reasons considered by and the recommendation of Access Capital, the Independent Board Committee considers the terms of the Rights Issue to be fair and reasonable in so far as the Independent Shareholders are concerned, and the Rights Issue is in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the resolution to be proposed at the SGM to approve the Rights Issue.

Yours faithfully,

For and on behalf of

Independent Board Committee

Kan Ka Hon

*Independent Non-Executive
Director*

Lau Sin Ming

*Independent Non-Executive
Director*

Foo Tak Ching

*Independent Non-Executive
Director*

LETTER FROM ACCESS CAPITAL

Set out below is the text of the letter of advice from Access Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this circular.



Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

11 September 2009

*To the Independent Board Committee and
the Independent Shareholders of
Easyknit Enterprises Holdings Limited*

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 11 September 2009 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 25 August 2009, the Company announced the proposed Capital Reorganisation and the proposed Rights Issue. Subject to the approval of the Capital Reorganisation by Shareholders at the SGM and the Capital Reorganisation becoming effective and the fulfilment of the relevant conditions, 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. The Company will provisionally allot four Rights Shares for every Adjusted Share held by Qualifying Shareholders on the Record Date.

LETTER FROM ACCESS CAPITAL

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, which the Company plans to use to finance potential property acquisitions and for general working capital of the Group.

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.

Pursuant to Rule 7.19(6)(a) of the Listing Rules, 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, among other things, approval by the Independent Shareholders at the SGM. Landmark Profits and its associates will abstain from voting on the resolution to approve the Rights Issue at the SGM.

As at the date hereof, the Company has three independent non-executive Directors, namely, Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching. The Independent Board Committee, comprising all the independent non-executive Directors, has been established for the purpose of advising the Independent Shareholders on the terms of the Rights Issue.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the Rights Issue is in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Rights Issue are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Rights Issue at the SGM.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and representations contained or referred to in the Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Company and the Directors, for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so at the date hereof. We have no reason to believe that any information or representation relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have confirmed that, having made all reasonable enquiries, to the best of their knowledge, opinions

LETTER FROM ACCESS CAPITAL

expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information to enable us to form a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any form of in-depth investigation into the business and affairs of the Company and its subsidiaries or the prospects of the markets in which they operate.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the terms of the Rights Issue, we have taken into consideration the following principal factors:

1. Background information of the Company

The Company is principally engaged in the bleaching and dyeing, and knitting businesses. As stated in the Group's annual report for the year ended 31 March 2009 (the "2009 Annual Report"), the Group has expanded its 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. For further details of the aforesaid acquisitions, please refer to the paragraph headed "Acquisition of the entire issued share capital of Chancemore Limited (the "Chancemore Acquisition") and Clever Wise Holdings Limited (the "Clever Wise Acquisition")" below.

Set out below is a summary of the published financial results of the Group for each of the two financial years ended 31 March 2008 and 2009 which are extracted from the 2009 Annual Report:

	For the year ended	
	31 March	
	2009	2008
	HK\$'000	HK\$'000
	(Audited)	(Audited)
Turnover		
- Bleaching and dyeing	59,879	74,891
- Knitting services	<u>81</u>	<u>32</u>
	<u>59,960</u>	<u>74,923</u>
Loss before taxation	(46,205)	(14,979)
Taxation	<u>(1,252)</u>	<u>(2,832)</u>
Loss for the year	<u>(47,457)</u>	<u>(17,811)</u>

LETTER FROM ACCESS CAPITAL

Bleaching and dyeing

The bleaching and dyeing business continued to be the major business of the Group and contributed to approximately 99.86% of the Group's total turnover for the year ended 31 March 2009, representing a minor decrease from approximately 99.96% for the year ended 31 March 2008. Taking into account the portion of inter-segment sales of approximately HK\$3.3 million (2008: nil), turnover of this segment decreased by approximately 15.62% to approximately HK\$63.2 million (2008: approximately HK\$74.9 million). This segment suffered a loss of approximately HK\$16.5 million (2008: loss of approximately HK\$2.3 million). The loss was due to the increase in fixed production cost per unit as a result of a decrease in sales, an increase in direct material costs, the allowance for doubtful debts of approximately HK\$3.8 million and impairment loss in respect of property, plant and equipment of approximately HK\$8.3 million recognised for the year.

Knitting

Turnover for the knitting business accounted for approximately 0.14% of the Group's total turnover for the year ended 31 March 2009, representing a slight increase from approximately 0.04% for the year ended 31 March 2008. External sales of approximately HK\$81,000 were recorded for the knitting business during the year under review (2008: approximately HK\$32,000). Taking into account the portion of inter-segment sales of approximately HK\$37.8 million (2008: approximately HK\$8.5 million), turnover derived from this segment rose by approximately 345.88% to approximately HK\$37.9 million (2008: approximately HK\$8.5 million). Despite the increase in turnover, a loss of approximately HK\$5.0 million was recorded for this segment (2008: loss of approximately HK\$1.4 million). The increase in loss was due to the rise in the price of cotton yarn, a raw material for knitting production, during the year under review.

Huzhou Project

During the financial year ended 31 March 2009, two blocks of factory premises and four blocks of workers' quarters have been completed on the land for garment manufacturing operation in respect of the Group's project in constructing knitting, bleaching and dyeing and garment manufacturing operations in Zhili Town, Huzhou City, China. To recognise the relevant completion, a corresponding cost of approximately HK\$101.1 million was transferred from construction in progress to buildings. The land use right certificate of the remaining portion of land earmarked for bleaching and dyeing operation was received by the Group in August 2009.

An announcement was published by the Company on 24 February 2009 concerning the Group having been advised by the Zhili Town Government by a letter dated 6 February 2009 that the plans for the Huzhou Project have to be changed due to the deterioration of the environment along the Taihu Lake area in the recent two years. The dyeing and bleaching operations, being an integral part of the Huzhou Project plan, may discharge significant quantities of liquid waste. Any such discharge will no longer be permitted.

LETTER FROM ACCESS CAPITAL

The Zhili Town Government has suggested that the land for 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. No relevant permits have yet been applied for by the Group.

As a result of changes required by the Zhili Town Government, the Board has determined that the Huzhou Project as planned for bleaching and dyeing, knitting and garment production is no longer viable for the foreseeable future but shall seek new input to the land acquired. As stated in the Letter from the Board, it is in the best interests of the Group to cease any further investment in the Huzhou Project as originally planned. As a result of the cessation, a full impairment provision of approximately HK\$15.3 million has been made against the remaining balance in the construction in progress of the Huzhou Project. The Board has also considered that it would be inappropriate and not in the interests of Shareholders to use the proceeds from all previous rights issues carried out by the Company for the Huzhou Project as originally planned.

Acquisition of the entire issued share capital of Chancemore Limited (the “Chancemore Acquisition”) and Clever Wise Holdings Limited (the “Clever Wise Acquisition”)

Reference is made to the circular dated 24 July 2009 issued by the Company (“July Circular”) in relation to the proposed Chancemore Acquisition and the Clever Wise Acquisition.

The acquisition of the entire issued share capital of Chancemore Limited and Clever Wise Holdings Limited respectively will enable the Group to acquire the property located at the Ground Floor and Cockloft Floor, No. 13 Matheson Street, Hong Kong (“Matheson Street Property”) and the Ground Floor, No.148 Johnston Road, Hong Kong (the “Johnston Road Property”) at an aggregate consideration of approximately HK\$91.7 million.

The Chancemore Acquisition and the Clever Wise Acquisition will enable the Group to extend its business activities to property investments. The acquisition of the Matheson Street Property and the Johnston Road Property will enable the Group to build up its property portfolio. The proposed Chancemore Acquisition and Clever Wise Acquisition were approved by the shareholders of the Company on 12 August 2009.

As extracted from the unaudited pro forma net assets statement in the July Circular, assuming the proposed acquisitions of the Matheson Street Property and Johnston Road Property through the acquisitions of the entire issued share capital of Chancemore Limited and Clever Wise Holdings Limited were completed, the Group’s bank balance and cash would decrease from approximately HK\$154.9 million as at 31 March 2009 to approximately HK\$59.3 million.

LETTER FROM ACCESS CAPITAL

As the Group has ceased its investment in the Huzhou Project as mentioned above, the original HK\$58.0 million, being part of the net proceeds from the rights issue of the Company set out in the Company's prospectus dated 29 December 2008, which were earmarked for the Huzhou Project has been re-designated for the Chancemore Acquisition. In addition, a sum of approximately HK\$37.2 million, being part of the net proceeds from the convertible note issued by the Company on 12 March 2008 with a principal amount of approximately HK\$37.7 million, which were also earmarked for the Huzhou Project has been re-designated for the Clever Wise Acquisition.

As at the Latest Practicable Date, the Chancemore Acquisition and the Clever Wise Acquisition have not yet been completed.

2. Reasons for the Rights Issue

As stated in the Letter from the Board, the Directors anticipate that the business of the Group will feel the impact of a declining market. Faced with the present worldwide adverse financial conditions, the Group will focus in implementing more effective controls in production cost and improving its product quality in order to serve the customers which have continued to place orders with the Group. If the adverse conditions prevail, the Company may look for other more profitable businesses.

In addition to the Chancemore Acquisition and the Clever Wise Acquisition as described above, 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 approximately HK\$70.0 million of the net proceeds from the Rights Issue to finance potential property acquisitions and the remaining approximately HK\$39.0 million for the general working capital of the Group.

The Rights Issue 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.

The Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company. The nil-paid Rights Shares will be traded on the Stock Exchange. The Qualifying Shareholders who do not take up their entitlements in full will have the opportunity to realise the value of their nil-paid Rights Shares on the market, subject to market conditions.

In view of the fact that the Group is expanding its business activities to property investment as evidenced by the Chancemore Acquisition and Clever Wise Acquisition, thus diversifying the income stream of the Group and in order to enable the Group to be more flexible in making investment decisions about property investment projects in future, the Directors consider that it is essential to strengthen the Group's financial resources after the Rights Issue for the Group to be in a better position to participate in property investments which are both time-sensitive and capital intensive in nature.

LETTER FROM ACCESS CAPITAL

Having taken into account (i) the consequential effect of strengthening the Company's capital base for future property investments as and when opportunities arise; (ii) the use of proceeds from the Rights Issue; and (iii) the opportunity for the Qualifying Shareholders to maintain their respective pro-rata shareholdings in the Company, we concur with the view of the Directors that the Rights Issue is fair and reasonable to the Qualifying Shareholders.

3. Alternative financing method

As stated in the Letter from the Board, 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.

We have been advised by the Directors that they have considered other means of fund raising such as debt financing and other forms of equity financing including placement of new Shares. Given the current financial position of the Group, the tightening in credit policy in the current financial market, the Directors consider that it will be difficult for the Company to obtain banking facilities with acceptable terms. Notwithstanding that the Group has no debt (on the basis of the total borrowings and the liability component of convertible note) as at 31 March 2009, debt financing would increase the gearing ratio of the Group and the interest burden would impose additional financial risk on the Group. Taking into account the net loss of approximately HK\$47.5 million attributable to the Shareholders for the financial year ended 31 March 2009, we concur with the view of the Directors that bank borrowings are not appropriate for or beneficial to the Group under the current circumstances.

In addition, the Directors also consider that a private placement of Shares results in immediate dilution of existing Shareholders' interests in the Company. In view of the fact that private placement of Shares which would not be offered to Shareholders on an equitable basis will result in the dilution of Shareholders' interests in the Company, the Directors do not consider a share placement to be a desirable alternative to the Rights Issue. In view of the fact that a private placement of Shares which would not be offered to Shareholders on an equitable basis will result in dilution of Shareholders' interests in the Company, we are of the view that the Rights Issue, which would enable the Qualifying Shareholders to maintain their relative percentage interests in the Company by taking up their allotments under the Rights Issue in full, to be in the interests of the Company and the Shareholders as a whole.

Having considered that the Rights Issue provides an opportunity for all Qualifying Shareholders to participate in an equitable manner and it is strategically appropriate and in the interests of the Company and the Shareholders for the Company to raise long-term capital for the Company to further engage in investments in property projects without increasing its interest burden under the current circumstances, we consider that the Rights Issue is a fair and reasonable financing method under the existing circumstances.

LETTER FROM ACCESS CAPITAL

4. Principal terms of the Rights Issue

(a) *Basis of the Rights Issue*

On the basis of four Rights Shares for every Adjusted Share held (assuming the Capital Reorganisation is completed) on the Record Date, it is proposed that 293,699,560 Rights Shares will be offered to the Qualifying Shareholders for subscription at a price of HK\$0.38 per Rights Share payable in full on acceptance.

To qualify for the Rights Issue, an investor must be registered as a member of the Company at the close of business on the Record Date and must be a Qualifying Shareholder. The Rights Shares, when allotted, issued and fully paid, will rank pari passu in all respects with the Adjusted Shares then in issue. Holders of the 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.

(b) *Subscription Price*

As stated in the Letter from the Board, 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.

Furthermore, as stated in the Letter from the Board, as the Directors, having taken into consideration the benefits of the Rights Issue, 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.

LETTER FROM ACCESS CAPITAL

The Subscription Price of HK\$0.38 per Rights Share represents:

	Before the Capital Reorganisation	After the Capital Reorganisation	Discount
	<i>HK\$</i>	<i>HK\$</i>	<i>(%)</i>
Subscription Price	0.038	0.38	
(a) Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	0.076	0.76	50.0
(b) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.125	1.25	69.6
(c) 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
(d) 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
(e) 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
(f) 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 Latest Practicable Date	0.486	4.86	92.2

In order to assess the reasonableness of the Subscription Price, we have compared the Rights Issue with rights issues conducted by other companies listed on the Stock Exchange in the six months preceding the date of the Underwriting Agreement. Shareholders should note that while listed companies differ from one another, it is a common market practice to price a rights issue at a discount to the market price of the relevant shares in order to encourage subscription by their shareholders. In addition, the market sentiment at the relevant time may also play an important role in the determination of the subscription price. Accordingly, we have reviewed all

LETTER FROM ACCESS CAPITAL

rights issues which were announced by companies listed on the Stock Exchange during the six-month period from 2 February 2009 to 17 August 2009, being the date of the Underwriting Agreement. Details of our findings on these rights issues (the “Comparables”) are summarised in the table below.

Date of announcement	Company (stock code)	Basis of entitlement	Subscription price	Closing price of the		Discount I <i>(Note 1)</i>	Discount II <i>(Note 2)</i>	Dilution <i>(Note 3)</i>	Underwriting commission
				last full trading day					
2-Feb-09	Unity Investments Holdings Limited (913)	1 for 1	0.10	0.131		23.66%	13.4%	50.00%	2.50%
12-Feb-09	Fortuna International Holdings Limited (subsequently changed to Goldin Financial Holdings Limited) (530)	9 for 1	0.67	0.84		20.24%	2.47%	90.00%	2.50%
13-Feb-09	Franshion Properties (China) Limited (817)	23 for 100	1.67	1.77		5.65%	4.64%	18.70%	0.00%
14-Feb-09	Yu Ming Investment Limited (subsequently changed to SHK Hong Kong Industries Limited) (666)	1 for 1	0.10	0.10		0.00%	0.00%	50.00%	2.50%
20-Feb-09	CASH Financial Services Group Limited (510)	1 for 2	0.45	0.69		34.78%	26.23%	33.33%	2.50%
23-Feb-09	China Sci-Tech Holdings Limited (985)	5 for 1	0.15	1.225		87.76%	54.43%	83.33%	2.50%
2-Mar-09	HSBC Holding plc (5)	5 for 12	28.00	56.17		50.15%	41.53%	29.41%	2.75% <i>(Note 4)</i>
3-Mar-09	Singamas Container Holdings Limited (716)	2 for 1	0.35	0.76		53.95%	28.08%	66.67%	4%
17-Mar-09	ITC Corporation Limited (372)	4 for 1	0.20	1.16		82.76%	48.98%	80.00%	2.50%
23-Mar-09	Kantone Holdings Limited (1059)	1 for 4	0.10	0.155		35.48%	30.56%	20.00%	2.50%
2-Apr-09	Harbour Centre Development Limited (51)	1 for 2	3.99	6.04		33.94%	25.51%	33.33%	2.25%
2-Apr-09	Tai Shing International (Holdings) Limited (8103) <i>(Note 5)</i>	2 for 1	0.10	0.33		69.70%	43.40%	66.67%	3%
15-Apr-09	Junefield Department Store Group Limited (758)	1 for 2	0.10	0.15		33.33%	25.00%	33.33%	Fixed fee
17-Apr-09	Champion Technology Holdings Limited (92)	1 for 1	0.10	0.305		67.21%	50.62%	50.00%	2.50%
30-Apr-09	PYI Corporation Limited (498)	2 for 1	0.12	0.44		72.73%	47.06%	66.67%	3%

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Date of announcement	Company (stock code)	Basis of entitlement	Subscription price	Closing price of the		Discount I <i>(Note 1)</i>	Discount II <i>(Note 2)</i>	Dilution <i>(Note 3)</i>	Underwriting commission
				last full trading day					
18-May-09	Minmetals Land Limited (230)	1 for 2	0.94	0.99		5.05%	3.42%	33.33%	0.00%
22-May-09	Pacific Andes International Holdings Limited (1174)	1 for 2	0.60	0.99		39.39%	30.23%	33.33%	0.00%
26-May-09	CIG Yangtze Poris Plc (8233) <i>(Note 6)</i>	2 for 3	0.05	0.23		78.26%	60.67%	57.14%	2.50%
26-May-09	Capital Strategic Investment Limited (497)	9 for 20	0.078	0.172		54.65%	45.39%	31.03%	2.00%
27-May-09	Imagi International Holdings Limited (585)	1 for 4	0.25	0.34		26.47%	22.36%	20.00%	3.50%
4-Jun-09	China Resources Power Holdings Company Limited (836)	1 for 10	14.00	17.92		21.88%	20.29%	9.09%	0.00%
9-Jun-09	China Solar Energy Holdings Limited (155)	1 for 2	0.08	0.195		58.97%	48.94%	33.33%	1.50%
24-Jun-09	China Primary Resources Holdings Limited (8117)	1 for 2	0.02	0.059		66.10%	56.52%	33.33%	7.50%
26-Jun-09	China Resources Microelectronics Limited (597)	1 for 2	0.15	0.203		26.11%	19.09%	33.33%	0.00%
26-Jun-09	United Pacific Industries (176)	1 for 5	0.15	0.225		33.33%	29.41%	16.67%	4%
16-Jul-09	China State Construction International Holdings Limited (3311)	1 for 5	2.79	3.10		10.00%	8.47%	16.67%	2.50%
12-Aug-09	Forefront Group Limited (885)	5 for 2	0.28	0.90		68.89%	38.75%	71.43%	2.50%
<i>Minimum</i>						5.05%	2.47%	9.09%	0.00%
<i>Maximum</i>						87.76%	60.67%	90.00%	7.50%
<i>Average</i>						42.98%	30.57%	42.97%	2.31%
25-Aug-09	The Company	4 for 1	0.38	1.25 <i>(Note 7)</i>		69.60%	30.91% <i>(Note 8)</i>	80.00%	1.00%

(Source: website of the Stock Exchange — www.hkex.com.hk)

Notes:

1. Being the discount of the subscription price to the closing price per share on the last full trading day prior to the release of the relevant announcement.
2. Being the discount of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the last full trading day prior to the release of the relevant announcement.

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3. Being the dilution on the shareholdings of those shareholders who do not take up their entitlements.
4. 2.75% is the base fee. In addition, the company may, in its sole discretion, pay to the underwriter a discretionary fee equal to 0.5% of the aggregate proceeds of the rights issue.
5. The ordinary resolution in relation to the proposed rights issue by Tai Shing International (Holdings) Limited (“Tai Shing”) was not approved by the shareholders of Tai Shing in the extraordinary general meeting of Tai Shing held on 7 July 2009. Hence the aforesaid rights issue has lapsed.
6. Accompanied by a bonus issue on the basis of one bonus share for every rights share taken up under the rights issue. When calculating the relevant discounts, the bonus issue has been taken into account.
7. Being the theoretical closing price immediately upon the Capital Reorganisation becoming effective.
8. When calculating Discount II for the Rights Issue, as stated in the Letter from the Board, theoretical ex-rights price was rounded to the nearest 2 decimal places at HK\$0.55.
9. On 13 August 2009, China Merchants Bank Co., Limited (stock code: 3968) (“China Merchants”) issued an announcement in relation to a proposed rights issue of its A shares and H shares. However, as at the Latest Practicable Date, various terms of the rights issue, including but not limited to, the subscription price per rights share, have not been determined. Hence the proposed rights issue by China Merchants has been excluded from the Comparables.

As shown in the above table, all apart from one of the Comparables had the subscription prices set at discount to their respective closing price per share on the last full trading day prior to the release of the relevant announcement, ranging from approximately 5.05% to 87.76%, with an average of approximately 42.98%. In the case of the Rights Issue, the discount of approximately 69.6% is within the range of the Comparables, but above the average discount of the Comparables. With regard to the discount to the theoretical ex-entitlement price per share of the Comparables, they ranged from approximately 2.47% to 60.67%, with an average of approximately 30.57%. In the case of the Rights Issue, the discount of approximately 30.9% is within the range of the Comparables and in line with the average discount of the Comparables.

In general, it is a common market practice to price a rights issue at a discount to the market price of the shares so as to encourage subscription by the shareholders. As for all rights issues, the interests of the Qualifying Shareholders will not be prejudiced by the relatively low subscription price so long as they are offered an equal opportunity to participate in the exercises. Having considered the subscription prices under the Comparables, we are of the view that the respective discounts (which are within the range of the Comparables) as represented by the Subscription Price to the closing price and the theoretical ex-rights price are acceptable. On this basis, we are of the view that the Subscription Price is fair and reasonable.

5. Potential financial effects of the Rights Issue

(a) *Adjusted consolidated net tangible assets*

Based on the information set out in the “1. Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group” contained in Appendix II to the Circular, the audited consolidated net tangible assets of the Group as at 31 March 2009 were approximately HK\$356.6 million.

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On the assumption that 293,699,560 Rights Shares are to be issued, the unaudited pro forma adjusted consolidated net tangible assets of the Group as adjusted for the Rights Issue, would increase to approximately HK\$465.6 million as a result of the estimated net proceeds from the Rights Issue of approximately HK\$109.0 million. On the same basis, the unaudited pro forma adjusted consolidated net tangible assets as adjusted for the Rights Issue per Adjusted Share would become approximately HK\$1.27, representing a decrease of approximately 73.9% from the unaudited consolidated net tangible assets per Adjusted Share of approximately HK\$4.86 adjusted for the Capital Reorganisation but prior to the Rights Issue.

Historically, the Shares have generally been trading at a significant discount to the Company's consolidated net tangible assets per share value. The theoretical closing price of HK\$1.25 per Adjusted Share (after the Capital Reorganisation) on the Last Trading Date represents a discount of approximately 74.3% to the unaudited consolidated net tangible assets per Adjusted Share of approximately HK\$4.86 immediately after the completion of the Capital Reorganisation but prior to the Rights Issue (the "Existing Discount"). Shareholders should note the arithmetical relationship that, when shares trade at a market price that is at a discount to the relevant net tangible assets per share value, any new issue of shares which is priced at a discount to the prevailing market price (as in the case of the Rights Issue) would inevitably result in a further dilution in the net tangible assets per share value.

It should be noted that the theoretical ex-rights price (which is generally taken as a measure of the theoretical market price of the Shares after the Rights Issue) of approximately HK\$0.55 per Adjusted Share calculated based on the closing price per Adjusted Share on the Last Trading Date would represent a discount of approximately 56.7% to the abovementioned unaudited pro forma adjusted consolidated net tangible assets per Adjusted Share of approximately HK\$1.27. Accordingly, when compared to the Existing Discount of approximately 74.3%, the discount to the relevant net tangible assets per Adjusted Share would be narrowed, and therefore potentially serve to partially redress the undervalue situation of the Adjusted Shares.

(b) *Cash resources*

As noted from the 2009 Annual Report, at 31 March 2009, the Group had total cash and cash equivalents of approximately HK\$154.9 million excluding pledged bank deposits of approximately HK\$10 million and without taking into account the subsequent acquisitions under the Chancemore Acquisition and the Clever Wise Acquisition.

The net proceeds from the Rights Issue receivable by the Company is estimated to be approximately HK\$109.0 million. The Rights Issue will strengthen the Group's working capital position.

(c) *Gearing ratio*

As noted from the 2009 Annual Report, no gearing ratio of the Group was presented as at 31 March 2009 as the Group had no bank borrowings and convertible note (31 March 2008: 0.126, calculated on the basis of the total borrowings and the liability component of convertible note of approximately HK\$33,750,000 at 31 March 2008 to the shareholders' fund).

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Accordingly, assuming there is no other change to the financial position of the Company since 31 March 2009 up to and including the date of completion of the Rights Issue save for the increase in the total assets of the Group by the net proceeds of the Rights Issue of approximately HK\$109.0 million, there will be no effect on the gearing ratio immediately after completion of the Rights Offer.

Based on the above analysis, we are of the view that the overall expected financial effects of the Rights Issue would improve the financial position of the Company and is in the interests of the Company and the Shareholders as a whole.

6. Terms of the Underwriting Agreement

Easyknit International, through Landmark Profits, was interested in 232,790,657 Shares, representing approximately 31.7% of the total issued share capital of the Company as at the Latest Practicable Date. Upon the Capital Reorganisation becoming 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 in full by it.

Further details on the conditions of the Underwriting Agreement are stated in the section headed “Underwriting Agreement dated 17 August 2009” in the Letter from the Board. Pursuant to the Underwriting Agreement, 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).

The Company will pay the Underwriter an underwriting commission of 1.0% of the aggregate Subscription Price underwritten by it, which was arrived at after arm’s length negotiations. The Directors believe that the underwriting commission accords with market rates and is fair and reasonable so far as the Independent Shareholders are concerned.

Based on our review of the underwriting arrangements of the Comparables, we noticed that the underwriting commission rates paid by the listed companies ranged from nil to 7.5%. In view of the underwriting commission rate under the Comparables, we consider that the underwriting commission of 1% in the present case to be in line with market practice and is fair and reasonable as far as the Independent Shareholders are concerned.

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7. Possible dilution effect of the Rights Issue on shareholding interests

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		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)	
			Immediately after the Capital Reorganisation but before the completion of the Rights Issue		After completion of the 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	31.7
Public	501,458,243	68.3	50,145,825	68.3	250,729,125	68.3	50,145,825	13.7
Underwriter <i>(Note)</i>	—	—	—	—	—	—	200,583,300	54.6
Total	734,248,900	100.0	73,424,890	100.0	367,124,450	100.0	367,124,450	100.0

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. The Underwriter had 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.

As the Rights Issue is to be offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Rights Issue in full and on the assumption that no Shareholders are excluded from the Rights Issue. Any Qualifying Shareholders who choose not to take up in full their assured allotments under the Rights Issue will have their shareholdings in the Company diluted by up to a maximum of 80.0%.

As in all rights issues, a dilution in the shareholding of those Qualifying Shareholders who do not take up in full their assured entitlements under the Rights Issue is inevitable. Based on our review of the Comparables, the effect of such dilution ranged from 9.09% to 90.0% and the possible dilution of 80.0% as in the case of the Rights Issue falls within such range of the Comparables. In fact, the dilution magnitude of any rights issues depends mainly on the extent of the basis of entitlement under

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such exercises since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be. Given the inherent dilutive nature of rights issue in general, we are of the view such potential dilution by the Rights Issue of the shareholding of the Shareholders is acceptable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole to the extent that the Rights Issue will enlarge the capital base and allow the Group to finance potential property acquisitions and enhance general working capital of the Group. Furthermore, there would be no dilution effect on those Qualifying Shareholders who take up their entitlements in full under the Rights Issue. Accordingly, we recommend the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolution to be proposed at the SGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Access Capital Limited

Ambrose Lam
Principal Director

Jimmy Chung
Principal Director

1. DIRECTORS**Particulars of Directors****Name****Address****Executive Directors**

Kwong Jimmy Cheung Tim
Flat D, 16th Floor, Tower 4
Hong Kong Gold Coast
Tuen Mun
New Territories
Hong Kong

Lui Yuk Chu
No. 7, Braga Circuit
Kowloon
Hong Kong

Non-executive Director

Tse Wing Chiu, Ricky
House D6
Flamingo Garden
No. 7, Fei Wan Road
Fei Ngo Shan
New Territories
Hong Kong

Independent Non-executive Directors

Kan Ka Hon
Unit GB, No. 11 La Serene
Discovery Bay
New Territories
Hong Kong

Lau Sin Ming
Flat D, 4th Floor
Wah Shing Building
19 Castle Peak Road
Kowloon
Hong Kong

Foo Tak Ching
Flat A, 11th Floor
Skyline Mansion
51 Conduit Road
Hong Kong

Executive Directors***Mr. Kwong Jimmy Cheung Tim (Chairman and Chief Executive Officer)***

Mr. Kwong, aged 66, is an executive Director, Chairman, Chief Executive Officer and authorised representative of the Company and a member and Chairman of the Executive Committee of the Board. He is also an executive director, President, Chief Executive Officer and authorised representative, and a member and Chairman of the Executive Committee of the board of directors of Easyknit International. Mr. Kwong graduated from the University of Hong Kong in 1965 and was admitted as a Barrister-at-Law in the United Kingdom in 1970 and in Hong Kong in 1973 respectively. He has over 30 years of experience in the legal field. He serves as director of various subsidiaries of the Company and Easyknit International. Mr. Kwong was appointed to the Board as an independent non-executive Director in April 2003, and was subsequently re-designated as an executive Director in April 2007. On 18 December 2007, Mr. Kwong was appointed as Chairman and Chief Executive Officer of the Company.

Ms. Lui Yuk Chu (Deputy Chairman)

Ms. Lui, aged 51, is an executive Director and Deputy Chairman of the Company and a member of the Executive Committee of the Board. She is also an executive director and Vice President, and a member of the Executive Committee of the board of directors of Easyknit International. Ms. Lui has been involved in the textiles industry for over 30 years and has extensive experience in design, manufacturing, marketing and distribution of apparel. She serves as director of various subsidiaries of the Company and Easyknit International. Ms. Lui was appointed to the Board as an executive Director in March 2003 and was appointed as Deputy Chairman of the Company on 20 January 2006.

Non-executive Director***Mr. Tse Wing Chiu, Ricky***

Mr. Tse, aged 51 is a non-executive Director of the Company. He is also a non-executive director of Easyknit International. Mr. Tse obtained a Master's Degree in Business Administration from Adam Smith University of America in the United States in 1996. He has more than 30 years of experience in garment manufacturing and merchandising. Mr. Tse was appointed to the Board as an executive Director and Vice Chairman in November 2005, and was subsequently re-designated from Vice Chairman to Chairman and appointed as Chief Executive Officer in January 2006. On 18 December 2007, Mr. Tse was re-designated from an executive Director to a non-executive Director of the Company and resigned as Chairman and Chief Executive Officer.

Independent Non-executive Directors***Mr. Kan Ka Hon***

Mr. Kan, aged 58, is a member and Chairman of the Audit Committee of the Board and a member of the Remuneration Committee of the Board. He holds a Bachelor's Degree in Science from the University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has over 30 years of experience in accounting and finance. Mr. Kan is also an independent non-executive director of Victory City International Holdings Limited. Mr. Kan was appointed to the Board in April 2003.

Mr. Lau Sin Ming

Mr. Lau, aged 47, is a member and Chairman of the Remuneration Committee of the Board and a member of the Audit Committee of the Board. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has over 26 years of experience in accounting and auditing. Mr. Lau was appointed to the Board in September 2004.

Mr. Foo Tak Ching

Mr. Foo, aged 75, is a member of the Audit Committee and Remuneration Committee of the Board. He is currently a Partner of Messrs. Liu, Choi & Chan, a firm of solicitors and notaries in Hong Kong and has been practicing in the legal field for more than 30 years. He obtained his LLB from the University of London in the United Kingdom in 1968 and his diploma in Chinese Laws from the University of East Asia in Macau in 1987. Mr. Foo was admitted as a solicitor in England and Wales in 1972 and in Hong Kong in 1973 and admitted as a barrister and solicitor in the State of Victoria, Australia in 1982. He is a Notary Public and a China Appointed Attesting Officer. Mr. Foo was appointed to the Board in April 2007.

2. CORPORATE INFORMATION**Registered office**

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business

7th Floor
Hong Kong Spinners Building, Phase 6
481-483 Castle Peak Road
Cheung Sha Wan, Kowloon
Hong Kong

Company secretary	Chan Po Cheung FCPA, FCCA, ACA
Authorised representatives	Kwong Jimmy Cheung Tim Chan Po Cheung
Legal advisers to the Company	<i>On Hong Kong law:</i> Richards Butler in association with Reed Smith LLP 20th Floor Alexandra House 16-20 Chater Road Hong Kong <i>On Bermuda law:</i> Appleby 8th Floor, Bank of America Tower 12 Harcourt Road, Central Hong Kong
Auditor	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35th Floor, One Pacific Place 88 Queensway Hong Kong
Branch share registrar and transfer office in Hong Kong	Tricor Secretaries Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal share registrar and transfer office in Bermuda	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong

3. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following the Capital Reorganisation and the Rights Issue are, and are expected to be as follows:

Authorised:

<u>20,000,000,000</u>	Shares	<u>HK\$200,000,000.00</u>
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Issued and fully-paid:

<u>734,248,900</u>	Shares as at the Latest Practicable Date	<u>HK\$7,342,489.00</u>
73,424,890	Adjusted Shares in issue upon the Capital Reorganisation becoming effective	HK\$734,248.90
<u>293,699,560</u>	Adjusted Shares to be issued pursuant to the Rights Issue	<u>HK\$2,936,995.60</u>
<u>367,124,450</u>	Adjusted Shares in issue immediately following the Rights Issue	<u>HK\$3,671,244.50</u>

Each of the Shares in issue ranks *pari passu* with all other Shares in all respects including as to rights to dividends, voting and return of capital. The Adjusted Shares to be issued pursuant to the Rights Issue, when fully paid and issued, will rank *pari passu* in all respects with the then issued Adjusted Shares including as to the right to receive dividends and distributions which may be declared, made or paid after the issue of the Rights Shares.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

Save as disclosed herein, no share or loan capital of the Company or any of its subsidiaries has been put under option or agreed conditionally or unconditionally to be put under option.

The Company has no outstanding warrants, share options or other securities which are convertible into or giving rights to subscribe for Shares.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared to illustrate the effect of the Rights Issue on the net tangible assets of the Group as if the Rights Issue had been completed on 31 March 2009. As it is prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group upon completion of the Rights Issue.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the net tangible assets of the Group as at 31 March 2009 as extracted from the published audited annual report of the Group for the year ended 31 March 2009 and is adjusted for the effect of the Rights Issue.

Audited consolidated net tangible assets of the Group as at 31 March 2009 <i>(Note 1)</i> <i>HK\$'000</i>	Estimated net proceeds from the Rights Issue <i>(Note 2)</i> <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group as adjusted for the Rights Issue <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets as adjusted for the Rights Issue per Adjusted Share <i>(Note 3)</i> <i>HK\$</i>
356,580	109,000	465,580	1.268

Notes:

1. The audited consolidated net tangible assets of the Group as at 31 March 2009 is based on the net assets of the Group extracted from the published annual report of the Group for the year ended 31 March 2009.

2. The estimated net proceeds from the Rights Issue are based on 293,699,560 Rights Shares of HK\$0.01 each at HK\$0.38 per Rights Share, after deducting the estimated underwriting fees and other related expenses of approximately HK\$2.6 million to be incurred by the Company.

3. The number of Shares used for the calculation of this amount is 367,124,450 which will be the total number of Adjusted Shares expected to be in issue after the Rights Issue representing the existing 73,424,890 Adjusted Shares in issue as at the Latest Practicable Date after adjusting for the effect of the Capital Reorganisation and 293,699,560 Rights Shares.

2. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS



TO THE DIRECTORS OF EASYKNIT ENTERPRISES HOLDINGS LIMITED

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of Easyknit Enterprises Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the 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 share for every adjusted share held might have affected the consolidated net tangible assets of the Group presented, for inclusion in Section 1 of Appendix II to the circular of the Company dated 11 September 2009 (the “Circular”). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is set out in Section 1 of Appendix II to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2009 or any future date.

Opinion

In our opinion:

- a) the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

11 September 2009

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular concerning the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Provision of Division 7 and 8 of Part XV of the SFO (including interests or the short positions which they were taken or deemed to have under such provision of the SFO); or (ii) pursuant to Section 352 of Part XV of the SFO, to be entered in the register referred therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in issued Shares

Name of Director	Capacity	Number of issued Shares held (long position)	Approximate percentage of interest
Ms. Lui Yuk Chu (<i>Note i</i>)	Beneficiary of a trust	232,790,657	31.70%

Note i: These Shares were registered in the name of and were beneficially owned by Landmark Profits which was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse).

(b) **Interests in unissued Shares**

Name of Director	Capacity	Number of unissued Shares held (long position)
Ms. Lui Yuk Chu (<i>Note ii</i>)	Beneficiary of a trust	93,116,260

Note ii: The 93,116,260 unissued Shares are the Rights Shares which Landmark Profits has undertaken to accept in respect of its pro rata entitlement under the Rights Issue following the Capital Reorganisation coming into effect. Landmark Profits was a wholly-owned subsidiary of Easykmit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easykmit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the Shares, underlying Shares and/or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

At the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 March 2009 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

Save as disclosed in the section headed “Material Contracts” in this appendix, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

3. DISCLOSURE OF INTEREST BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, the following persons (“Substantial Shareholders”)(other than the Directors and the chief executives of the Company) had following interests or a short position in the Shares and/or underlying Shares which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(a) Interests in issued Shares

Name of Shareholder	Nature of Interest	Number of issued Shares held (long position)	Approximate percentage of interest
Koon Wing Yee (<i>note i</i>)	Interest of spouse	232,790,657	31.70%
Landmark Profits (<i>notes i and ii</i>)	Beneficial owner	232,790,657	31.70%
Easyknit International (<i>notes i and ii</i>)	Interest of controlled corporation	232,790,657	31.70%
Magical Profits Limited (<i>notes i and iii</i>)	Interest of controlled corporation	232,790,657	31.70%
Accumulate More Profits Limited (<i>note i</i>)	Interest of controlled corporation	232,790,657	31.70%
Hang Seng Bank Trustee International Limited (<i>notes i & iv</i>)	Trustee	232,790,657	31.70%
Hang Seng Bank Limited (<i>note iv</i>)	Interest of controlled corporation	232,790,657	31.70%
The Hongkong and Shanghai Banking Corporation Limited (<i>note iv and v</i>)	Interest of controlled corporation	232,790,658	31.70%
HSBC Asia Holdings BV (<i>note v</i>)	Interest of controlled corporation	232,790,658	31.70%
HSBC Asia Holdings (UK) (<i>note v</i>)	Interest of controlled corporation	232,790,658	31.70%

Name of Shareholder	Nature of Interest	Number of issued Shares held (long position)	Approximate percentage of interest
HSBC Holdings BV (note v)	Interest of controlled corporation	232,790,658	31.70%
HSBC Finance (Netherlands) (note v)	Interest of controlled corporation	232,790,658	31.70%
HSBC Holdings plc (note v)	Interest of controlled corporation	232,790,658	31.70%
Park Jong Yong	Beneficial owner	80,222,944	10.92%

Notes:

- (i) The 232,790,657 Shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Landmark Profits which was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a Director, and her family members other than her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 232,790,657 Shares by virtue of the SFO.
- (ii) Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being Directors, are also directors of Landmark Profits and Easyknit International.
- (iii) Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.
- (iv) Hang Seng Bank Trustee International Limited was a wholly-owned subsidiary of Hang Seng Bank Limited. Hang Seng Bank Limited was owned as to approximately 62.14% by The Hongkong & Shanghai Banking Corporation Limited.
- (v) The 232,790,658 Shares relate to the same block of shares. Out of 232,790,658 Shares, 232,790,657 Shares were registered in the name of and beneficially owned by Landmark Profits. The remaining one share was held by HSBC Broking Securities (Asia) Limited, which was a wholly-owned subsidiary of HSBC Broking Services (Asia) Limited which in turn was wholly-owned by The Hongkong and Shanghai Banking Corporation Limited. The Hongkong & Shanghai Banking Corporation Limited was wholly-owned by HSBC Asia Holdings BV which was a wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) was wholly-owned by HSBC Holdings BV which in turn was wholly-owned by HSBC Finance (Netherlands). HSBC Finance (Netherlands) was a wholly-owned subsidiary of HSBC Holdings plc.

(b) Interests in unissued Shares

Name of Shareholder	Nature of Interest	Number of unissued Shares held (long position)
Koon Wing Yee (<i>note i</i>)	Interest of spouse	93,116,260
Landmark Profits (<i>notes i and ii</i>)	Beneficial owner	93,116,260
Easyknit International (<i>notes i and ii</i>)	Interest of controlled corporation	93,116,260
Magical Profits Limited (<i>notes i and iii</i>)	Interest of controlled corporation	93,116,260
Accumulate More Profits Limited (<i>note i</i>)	Interest of controlled corporation	93,116,260
Hang Seng Bank Trustee International Limited (<i>notes i & iv</i>)	Trustee	93,116,260
Hang Seng Bank Limited (<i>note iv</i>)	Interest of controlled corporation	93,116,260
The Hongkong and Shanghai Banking Corporation Limited (<i>note iv</i>)	Interest of controlled corporation	93,116,260
HSBC Asia Holdings BV (<i>note iv</i>)	Interest of controlled corporation	93,116,260
HSBC Asia Holdings (UK) (<i>note iv</i>)	Interest of controlled corporation	93,116,260
HSBC Holdings BV (<i>note iv</i>)	Interest of controlled corporation	93,116,260
HSBC Finance (Netherlands) (<i>note iv</i>)	Interest of controlled corporation	93,116,260
HSBC Holdings plc (<i>note iv</i>)	Interest of controlled corporation	93,116,260
Kingston Securities Limited (<i>note v</i>)	Other	200,583,300
Chu Yuet Wah (<i>note v</i>)	Interest of controlled corporation	200,583,300
Ma Siu Fong (<i>note v</i>)	Interest of controlled corporation	200,583,300
Cheer Union Securities Limited (<i>note vi</i>)	Other	70,000,000

Notes:

- (i) The 93,116,260 unissued Shares are the Rights Shares which Landmark Profits has undertaken to accept in respect of its pro rata entitlement under the Rights Issue following the Capital Reorganisation coming into effect. Landmark Profits was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a Director, and her family members other than her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 93,116,260 unissued Shares by virtue of the SFO.
- (ii) Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being Directors, are also directors of Landmark Profits and Easyknit International.
- (iii) Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.
- (iv) Hang Seng Bank Trustee International Limited was a wholly-owned subsidiary of Hang Seng Bank Limited. Hang Seng Bank Limited was owned as to approximately 62.14% by The Hongkong & Shanghai Banking Corporation Limited. The Hongkong & Shanghai Banking Corporation Limited was wholly-owned by HSBC Asia Holdings BV which was a wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) was wholly-owned by HSBC Holdings BV which in turn was wholly-owned by HSBC Finance (Netherlands). HSBC Finance (Netherlands) was a wholly-owned subsidiary of HSBC Holdings plc.
- (v) The 200,583,300 unissued Shares are the Rights Shares which the Underwriter has underwritten in respect of the Rights Issue following the Capital Reorganisation coming into effect. The Underwriter is owned as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong, who are Independent Third Parties.
- (vi) The 70,000,000 unissued Shares are the Rights Shares which Cheer Union Securities Limited has sub-underwritten in respect of the Rights Issue from the Underwriter.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing and proposed service contract with any members of the Group other than contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and, so far as the Directors are aware, there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. MATERIAL ADVERSE CHANGES

The Directors are of the opinion that, save as publicly disclosed, there has not been any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date to which the latest published audited accounts of the Group were made up.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

To the best of the Directors' knowledge, none of the Directors and their respective associates are considered to have any interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

8. INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, to the best of the knowledge of the Directors, none of the Directors or proposed directors of the Company or any expert named in this circular had any direct or indirect interest in any asset which had been, since 31 March 2009, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of, by or leased to any member of the Group or are proposed to be acquired or disposed of, by or leased to any member of the Group.

9. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

- (a) the underwriting agreement dated 29 November 2007 entered into between the Company and Kingston Securities Limited in relation to the rights issue of 1,963,537,620 rights shares at HK\$0.052 per rights share on the basis of one rights share for every two shares held;
- (b) the subscription agreement dated 28 February 2008 between the Company and Chen Tien Tui for the issue of a convertible note with a principal amount of HK\$37,650,000 at the initial conversion price of HK\$0.048 per share;
- (c) the underwriting agreement dated 5 November 2008 (as amended by a supplemental agreement dated 3 December 2008) entered into between the Company and Get Nice Securities Limited in relation to the underwriting and certain other arrangements in respect of the rights issue of 667,499,000 rights shares at HK\$0.15 per rights share on the basis of 10 rights shares for every share held;
- (d) the provisional agreement for sale and purchase dated 13 May 2009 entered into between Chancemore Limited and Max Up Investments Limited in relation to the sale and purchase of a property at Matheson Street, Hong Kong;

- (e) the formal agreement for sale and purchase dated 19 June 2009 entered into between Clever Wise Holdings Limited and Max Palace Corporation Limited in relation to the sale and purchase of a property at Johnston Road, Hong Kong;
- (f) an agreement dated 29 June 2009 entered into between Power Bright Investments Limited and Mr. Li Ming Hung for the sale and purchase of the entire issued share capital of Chancemore Limited and the assignment of the shareholder's loan of Chancemore Limited;
- (g) an agreement dated 29 June 2009 entered into between Power Bright Investments Limited and Mr. Li Ming Hung for the sale and purchase of the entire issued share capital of Clever Wise Holdings Limited and the assignment of the shareholder's loan of Clever Wise Holdings Limited; and
- (h) the Underwriting Agreement.

Save as disclosed, none of the members of the Group has entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date that are or may be material.

10. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given their opinion or advice which is contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Access Capital	a corporation licensed to carry out 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

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Access Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Access Capital do not have any direct or indirect interests in any assets which have been, since 31 March 2009 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

Deloitte Touche Tohmatsu and Access Capital have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letters and the references to their names in the form and context in which they appear.

11. GENERAL

- (a) The company secretary of the Company is Mr. Chan Po Cheung, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants
- (b) The principal share registrar and transfer office of the Company is The Bank of Bermuda Limited at Bank of Bermuda Building, 6 Front Street, Hamilton HM 11, Bermuda and the Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- (c) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong
- (d) The English text of this circular prevails over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong from the date of this circular, for a period of 14 days:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Underwriting Agreement;
- (c) the letter of Undertaking;
- (d) the letter of consent referred to in the section headed "Experts and consents" of this Appendix;
- (e) the accountants' report on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group;
- (f) the material contracts referred to in the section headed "Material Contracts" of this appendix;
- (g) the annual reports of the Company for the two years ended 31 March 2009;
- (h) the letter of advice from Access Capital, the text of which is set out on pages 34 to 49; and
- (i) this circular.

NOTICE OF SGM



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 616)

NOTICE IS HEREBY GIVEN that a special general meeting of Easyknit Enterprises Holdings Limited (the “Company”) will be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on Tuesday, 13 October 2009 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, the first of which will be proposed as a special resolution and the second of which will be proposed (with or without amendment) as an ordinary resolution:-

SPECIAL RESOLUTION

1. “**THAT**, conditional upon:

- (a) compliance with the relevant legal procedures and requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) and the Companies Act 1981 Bermuda (as amended) to effect the following; and
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares (as defined below)

with effect from 9:30 a.m. on 14 October 2009 (Hong Kong time):

- (i) the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK\$0.009 on each of the issued shares of HK\$0.01 each such that the nominal value of each of the issued shares be reduced (“**Issued Capital Reduction**”) from HK\$0.01 to HK\$0.001;
- (ii) upon the Issued Capital Reduction becoming effective, every ten (10) issued shares of HK\$0.001 each be consolidated (“**Share Consolidation**”) into one (1) share of HK\$0.01 each (“**Adjusted Share**”);
- (iii) the entire amount standing to the credit of the share premium account of the Company be reduced from HK\$369,309,535.29 to nil (“**Share Premium Reduction**”);

* For identification only

NOTICE OF SGM

- (iv) the credit amount arising from the Issued Capital Reduction and the Share Premium Reduction be transferred to the contributed surplus account of the Company, and an appropriate amounts in the contributed surplus account be applied to set off against the total accumulated losses of the Company (“Set-Off against Accumulated Losses”); and
- (v) the directors of the Company be and are hereby authorised to utilise the credit balance in the contributed surplus account in accordance with the bye-laws of the Company and applicable laws (including by way of Set Off against Accumulated Losses of the Company) and do all things and acts and sign all documents and take such steps as they consider necessary, desirable, or expedient in connection with the implementation of the above.”

ORDINARY RESOLUTION

2. “THAT

- (i) the underwriting agreement between Kingston Securities Limited and the Company dated 17 August 2009 (“Underwriting Agreement”) as supplemented by a side letter dated 21 August 2009 (a copy of the Underwriting Agreement and the side letter having been produced to this meeting and marked “A” and “B” respectively and initialled by the chairman of the meeting for the purpose of identification) be and is hereby confirmed, approved and ratified;
- (ii) subject to the Underwriting Agreement becoming unconditional, and the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Rights Shares (as defined below) in their nil-paid and fully-paid forms, the allotment and issue of 293,699,560 new shares of HK\$0.01 each (“Rights Shares”) pursuant to an offer by way of rights to holders of shares of HK\$0.01 each (“Shareholders”) in the Company at HK\$0.38 per Rights Share (“Rights Issue”) in the proportion of four (4) Rights Shares for every share of HK\$0.01 each held by Shareholders on and subject to the terms and conditions set out in the circular to the Shareholders dated 11 September 2009 (“Circular”) and on such other terms and conditions as may be determined by the directors of the Company be and is hereby approved; and
- (iii) the directors of the Company be and are hereby authorised to allot and issue the Rights Shares on terms as set out in the Circular and to do all such acts and things, to sign and execute all documents and to take such steps as they consider necessary, desirable, or expedient to give effect to or in connection with the Rights Issue and the Underwriting Agreement or any of the transactions contemplated thereunder.”

By order of the Board of
EASYKNIT ENTERPRISES HOLDINGS LIMITED
Kwong Jimmy Cheung Tim
Chairman and Chief Executive Officer

Hong Kong, 11 September 2009

NOTICE OF SGM

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than 48 hours before the time for holding the meeting or the adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
4. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting or upon the poll concerned and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
6. A form of proxy for use at the meeting is enclosed.