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**EASYKNIT ENTERPRISES HOLDINGS LIMITED**

**永義實業集團有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 616)**

**ANNOUNCEMENT IN RELATION TO**

**MAJOR TRANSACTION**

**and**

**PROGRESS OF THE HUZHOU PROJECT**

**THE SALE AND PURCHASE AGREEMENT**

On 1 March 2010, Easyknit Weaving (Huzhou), Easyknit Dyeing and Printing (Huzhou) (as the Vendors) and the Zhili Town Government (as the purchaser), amongst others, entered into the Sale and Purchase Agreement in connection with the Disposal.

Subject to the terms and conditions of the Sale and Purchase Agreement, the Vendors have agreed to sell, and the Zhili Town Government has agreed to purchase, the Repurchased Lands. The total sum payable by the Zhili Town Government under the Sale and Purchase Agreement is RMB76,477,935 (approximately HK\$86,927,000).

\* *For identification purpose only*

## **REASONS FOR AND BENEFITS OF THE DISPOSAL**

In the Company's announcement dated 24 February 2009, the Company informed the Shareholders that, amongst other things, the resident representative of the subsidiaries of the Company where operations were intended to be part of the Huzhou Project was informed by officials of the Zhili Town Government that there were increasing concerns about the pollution of the Taihu Lake caused by the discharge of industrial waste and that the plans for the Huzhou Project had to be changed in a way that rendered the Huzhou Project unviable.

Since then the Company has held discussions with the Zhili Town Government as a result of which the Zhili Town Government has agreed to buy from the Group an aggregate of approximately 303 mu (equivalent to approximately 202,000 sq.m.) of industrial land, being the Repurchased Lands, that were originally planned to form part of the Huzhou Project.

The Disposal provides the Group with an opportunity to dispose of the Repurchased Lands and to use the proceeds from the Disposal for general working capital of the Group and to fund possible future investments.

## **IMPLICATIONS UNDER THE LISTING RULES**

One or more of the applicable percentage ratios (as defined in the Listing Rules) of the Disposal exceed 25% but are less than 75%, and therefore the Disposal constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules. The Disposal is therefore subject to reporting, announcement and Shareholders' approval requirements under the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is materially interested in the Disposal and therefore required to abstain from voting on the resolution approving the Disposal at the SGM.

**As Completion is subject to the fulfilment and/or waiver of a number of conditions precedent in the Sale and Purchase Agreement, the Disposal may or may not complete. Shareholders and potential investors should exercise caution when dealing in the Shares.**

## **GENERAL**

A circular containing amongst other things further particulars of the Disposal, the valuation report from the Independent Valuer and a notice convening the SGM will be dispatched to Shareholders as soon as practicable.

## **INTRODUCTION**

Reference is made to the circulars of the Company dated 21 February 2005 and 22 December 2005 and the announcements of the Company dated 20 October 2008 and 24 February 2009 in relation to, amongst other things, the acquisition and updates on the progress of the Huzhou Project.

On 1 March 2010, Easyknit Weaving (Huzhou), Easyknit Dyeing and Printing (Huzhou) (as the Vendors) and the Zhili Town Government (as the purchaser), amongst others, entered into the Sale and Purchase Agreement in connection with the Disposal.

## **THE SALE AND PURCHASE AGREEMENT**

A summary of the principal terms of the Sale and Purchase Agreement is set out below:

### **Date**

1 March 2010

### **Parties**

(1) the Zhili Town Government, as purchaser;

(2) Easyknit Weaving (Huzhou);

(3) Easyknit Dyeing and Printing (Huzhou);

(both Easyknit Weaving (Huzhou) and Easyknit Dyeing and Printing (Huzhou) as the Vendors)

(4) Finance Bureau of Wuxing District, as guarantor; and

(5) Easyknit Mauritius

To the best of the Directors' knowledge, information and belief, and after having made all reasonable enquiries, the Zhili Town Government and the Guarantor are Independent Third Parties.

### **Subject matter of the Sale and Purchase Agreement**

Subject to the terms and conditions of the Sale and Purchase Agreement, the Vendors have agreed to sell and the Zhili Town Government has agreed to purchase, the Repurchased Lands.

## **Consideration**

The consideration for the sale of the Repurchased Lands is RMB47,517,810 (approximately HK\$54,010,000) which is to be settled by instalments with final full settlement to be made within six months of signing of the Sale and Purchase Agreement. In the event that there is any delay in the examination, approval and registration formalities in respect of the transfer of the Repurchased Lands caused by the Vendors, the time for payment of the consideration will be postponed accordingly.

In addition, the Zhili Town Government has agreed to pay a sum of RMB15,807,725 (approximately HK\$17,968,000) to the Vendors in reimbursement of sums paid to the Zhili Town Government by the Vendors to construct a sewage treatment system. The RMB15,807,725 (approximately HK\$17,968,000) had been utilised by the Zhili Town Government at all times, and the construction of the sewage treatment system has not yet commenced. The Zhili Town Government has agreed to pay interest of RMB7,552,400 (approximately HK\$8,584,000) at the rate of 10% per annum on this sum. The total amount payable by the Zhili Town Government in connection with this reimbursement is RMB23,360,125 (approximately HK\$26,552,000). This sum is also to be paid within six months of signing of the Sale and Purchase Agreement.

Further, in view of various factors which have led to the failure of the Huzhou Project being implemented as planned, the Zhili Town Government has agreed to pay compensation of RMB5,600,000 (approximately HK\$6,365,000) to the Vendors to compensate them for expenses incurred in connection with, amongst other things, conducting land surveys, drilling, planning and design and environment impact assessments.

The total sum payable by the Zhili Town Government under the Sale and Purchase Agreement is therefore RMB76,477,935 (approximately HK\$86,927,000).

The consideration for the sale of the Repurchased Lands was determined based on arm's length negotiation between the parties having regard to the initial purchase price by the Vendors of the Site, the maximum price at which the Zhili Town Government may repurchase the Repurchased Lands, other payments payable to the Vendors under the Sale and Purchase Agreement and market value of the Repurchased Lands of RMB60,667,800 (approximately HK\$68,903,098) as at 23 February 2010 in the opinion of the Independent Property Valuer. Following the Disposal, the Company will cease to have any interest in the Repurchased Lands.

The Zhili Town Government has agreed to pay a deposit of RMB3,000,000 (approximately HK\$3,410,000) to the Vendors within 3 working days of signing the Sale and Purchase Agreement. This deposit is to be used as part payment of the sums to be paid by the Zhili Town Government to the Vendors, if the Zhili Government is

able to settle all sums due within the times specified in the Sale and Purchase Agreement. If the Zhili Town Government fails to make payment on time, the deposit will be forfeited and the Vendors will be entitled to keep the deposit and this sum will not form part of the consideration. If the Disposal fails due to a default of the Vendors to process any documentation in Hong Kong, the Vendors will be required to repay the deposit to the Zhili Town Government, plus an additional RMB3,000,000 (approximately HK\$3,410,000).

### **Conditions Precedent**

The Sale and Purchase Agreement is subject to the approval of the shareholders of the Vendors, and the Shareholders at the SGM of the Company in accordance with the Listing Rules.

### **Guarantee**

Pursuant to the Sale and Purchase Agreement, the Guarantor has unconditionally guaranteed, inter alia, the financial obligations of the Zhili Town Government under the Sale and Purchase Agreement. The guarantee shall be valid from two years from the latest date on which the Zhili Town Government is required to make payment to the Vendors under the Sale and Purchase Agreement.

### **REASONS FOR ENTERING INTO THE SALE AND PURCHASE AGREEMENT**

In the Company's announcement dated 24 February 2009, the Company informed the Shareholders that the resident representative of the subsidiaries of the Company whose operations were intended to be part of the Huzhou Project was informed by officials of the Zhili Town Government that there were increasing concerns about the pollution of the Taihu Lake caused by the discharge of industrial waste and that the plans for the Huzhou Project had to be changed in a way that rendered the Huzhou Project unviable.

The Board determined that it was in the best interests of the Company and its Shareholders as a whole to cease any further investment in the Huzhou Project, for the foreseeable future.

Since then the Company has held discussions with the Zhili Town Government as a result of which the Zhili Town Government has agreed to buy from the Group an aggregate of approximately 303 mu (equivalent to approximately 202,000 sq.m.) of industrial land (the certificates of land use rights for which have already been issued and delivered to the Group), being the Repurchased Lands, that were originally planned to form part of the Huzhou Project.

As the Group is unable to pursue the Repurchased Lands and has not been approached by any potential purchaser, the Disposal provides the Group with an opportunity to dispose of the Repurchased Lands and to use the proceeds from the Disposal for general working capital of the Group and to fund possible future investments.

Pursuant to the Sale and Purchase Agreement, the Zhili Town Government has acknowledged that it will not be possible to continue with the manufacturing operations as originally planned at the Huzhou Project after the repurchase of the Repurchased Lands. The Zhili Town Government has agreed that Easyknit Mauritius can arrange for development of alternative industries within the part of the Site originally designated for manufacturing operations and such development will be fully supported by the Zhili Town Government.

As at the date of this announcement, the Directors have not identified any suitable alternative use for the remaining part of the Site after completion of the Disposal.

The Directors (including the independent non-executive directors) consider that the Disposal is in the interests of the Group and the Shareholders as a whole, and is on normal commercial terms which terms are fair and reasonable.

## **FINANCIAL INFORMATION**

The value attributable to the Repurchased Lands in the books of the Company as at 30 September 2009 was approximately RMB32,459,048 (approximately HK\$36,893,660).

Upon completion of the Disposal, other than the interest income of RMB7,552,400 (approximately HK\$8,584,000) and compensation of RMB5,600,000 (approximately HK\$6,365,000), the Directors expect that the Company will recognise a disposal gain of approximately RMB13,427,820 (approximately HK\$15,262,000) in the consolidated income statements of the Group, calculated by reference to the difference between the net proceeds of the transfer of the Repurchased Lands after taking into account estimated transaction costs of approximately HK\$1,500,000 and the net book value of the Repurchased Lands as at 31 January 2010.

As the intended operations of the Huzhou Project have not yet commenced, there are no profits attributable to the Repurchased Lands.

## **INFORMATION RELATING TO THE PARTIES**

Since cessation of its bleaching, dyeing and knitting operations around December 2009, the principal activity of the Group has been property investment. As announced by the Company on 8 December 2009 and as approved by the Shareholders on 17 February 2010, the Company acquired a garment trading business from Easyknit International Holdings Limited.

The Vendors and Easyknit Mauritius are all wholly-owned subsidiaries of the Company. It was originally intended that Easyknit Dyeing and Printing (Huzhou) would carry out the bleaching and dyeing operations of the Huzhou Project, and that Easyknit Weaving (Huzhou) would carry out the weaving and knitting operations of the Huzhou Project. Easyknit Mauritius is an investment holding company.

The Zhili Town Government, the purchaser of the Repurchased Lands, and the Guarantor, are local government authorities of the PRC and are Independent Third Parties.

## **IMPLICATIONS UNDER THE LISTING RULES**

One or more of the applicable percentage ratios (as defined in the Listing Rules) of the Disposal exceed 25% but are less than 75%, and therefore the Disposal constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules. The Disposal is therefore subject to reporting, announcement and Shareholders' approval requirements under the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is materially interested in the Disposal and therefore required to abstain from voting on the resolution approving the Disposal at the SGM.

## **USE OF PROCEEDS**

The proceeds of the Disposal are intended to be used for general working capital of the Group and to fund possible future investments. At the date of this announcement, the Company has not identified any specific investment or opportunities and no agreement or arrangement has been reached in relation to any such opportunities.

## **GENERAL**

A circular containing amongst other things further particulars of the Disposal, the valuation report from the Independent Valuer and a notice convening the SGM will be dispatched to Shareholders as soon as practicable.

## DEFINITIONS

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

“Board”	the board of Directors;
“Company” and “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 Stock Exchange;
“Director(s)”	director(s) of the Company;
“Disposal”	the sale of the Repurchased Lands pursuant to the Sale and Purchase Agreement;
“Easyknit Dyeing and Printing (Huzhou)”	永義漂染(湖州)有限公司 (Easyknit Dyeing and Printing (Huzhou) Co, Limited), a wholly foreign owned enterprise incorporated in the PRC and held by Easyknit Mauritius;
“Easyknit Mauritius”	Easyknit (Mauritius) Limited, a company incorporated in the Republic of Mauritius and a wholly owned subsidiary of the Company;
“Easyknit Weaving (Huzhou)”	永義紡織(湖州)有限公司 (Easyknit Weaving (Huzhou) Co., Limited), a wholly foreign owned enterprise incorporated in the PRC and held by Easyknit Mauritius;
“Guarantor”	the Finance Bureau of Wuxing District;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Huzhou Project”	development of manufacturing operations in relation to the garment production, bleaching, dyeing, weaving and knitting operations and waste water treatment plant that were planned to be located at the plant being constructed and developed at the Site;

“Independent Third Party(ies)”	a third party who, to the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, is independent of the Company and of connected persons (as defined in the Listing Rules) of the Company;
“Independent Valuer”	Merryshine Surveyors Limited, the independent valuer of the Repurchased Lands;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“Repurchased Lands”	the three pieces of land forming part of the Site of an aggregate area of approximately 303 mu (equivalent to approximately 202,000 sq.m.) situated at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC and the South of Hongtang Harbour, PRC;
“RMB”	renminbi, the lawful currency of the PRC;
“Sale and Purchase Agreement”	the conditional agreement dated 1 March 2010 between the Zhili Town Government, the Vendors, the Guarantor and Easyknit Mauritius for the sale by the Vendors and the purchase by the Zhili Town Government of the Repurchased Lands;
“SGM”	the special general meeting of the Company to be convened to consider, and if thought fit, approve, amongst other things, the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the Disposal;
“Shareholder(s)”	holder(s) of Share(s);
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Site”	the land of an aggregate area of approximately 632 mu situated at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC and the South of Hongtang Harbour, PRC

“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Vendors”	永義紡織 (湖州) 有限公司 (Easyknit Weaving (Huzhou) Co, Limited) and 永義漂染 (湖州) 有限公司 (Easyknit Dyeing and Printing (Huzhou) Co, Limited); and
“Zhili Town Government”	the People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC.

*For the purpose of illustration only, amounts denominated in RMB have been translated into HK\$ at the rate of HK\$1 = RMB0.8798. Such translation should not be construed as a representation that the amounts could have been or could be or will be converted at the stated rate or at any other rates at all.*

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

Hong Kong, 1 March 2010

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