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EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1218)

**PROPOSED CAPITAL REORGANISATION
AND
PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE RIGHTS SHARES FOR EVERY ADJUSTED SHARE HELD
RESUMPTION OF TRADING**

Financial Adviser

ALTUS CAPITAL LIMITED

Underwriter of the Rights Issue



PROPOSED CAPITAL REORGANISATION

The Company proposes to effect the Share Consolidation pursuant to which every 10 issued and unissued Shares will be consolidated into one Consolidated Share. As at the date of this announcement, the authorised share capital of the Company is HK\$1,000,000,000 comprising 10,000,000,000 Shares of par value HK\$0.10 each, of which 1,985,510,079 Shares have been issued and fully paid. Immediately after the completion of the Share Consolidation, the authorised share capital of the Company will comprise 198,551,007 issued Consolidated Shares and 801,448,993 unissued Consolidated Shares of par value HK\$1.00 each.

Immediately after the Share Consolidation becoming effective, the Company proposes the Capital Reduction which involves: (i) the reduction of par value of each Consolidated Share in issue from HK\$1.00 each to HK\$0.01 each by cancelling HK\$0.99 paid up capital on each Consolidated Share in issue; (ii) the subdivision of each unissued Consolidated Share with par value of HK\$1.00 each into 100 new unissued Adjusted Shares of par value HK\$0.01 each; and (iii) transfer the credit arising from the cancellation of paid up capital of approximately HK\$196,565,496.93 to a capital reserve account of the Company. Accordingly, based on the number of Consolidated Shares in issue upon the Share Consolidation becoming effective, the issued share capital of the Company of HK\$198,551,007 comprising 198,551,007 Consolidated Shares will be reduced by approximately HK\$196,565,496.93 to approximately HK\$1,985,510.07 comprising 198,551,007 Adjusted Shares. The Capital Reorganisation is conditional upon, inter alia, the approval of the Shareholders at the SGM.

PROPOSED RIGHTS ISSUE

Upon completion of the Capital Reorganisation, the Company proposes to raise not less than approximately HK\$208.48 million before expenses (assuming no exercise of Share Options on or before 1 September 2006) or not more than approximately HK\$222.52 million before expenses (assuming all the Share Options are exercised on or before 1 September 2006) by way of the Rights Issue of not less than 595,653,021 Rights Shares and not more than 635,758,101 Rights Shares at a price of HK\$0.35 per Rights Share.

The Company will provisionally allot three Rights Shares in nil-paid form for every Adjusted Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is not available to the Non-Qualifying Shareholders.

The Company has outstanding Share Options in issue as at the date of this announcement. The outstanding Share Options will lapse on 2 September 2006. Upon exercise of the rights attaching to the outstanding Share Options on or before 1 September 2006 in full, 133,683,600 Shares will fall to be issued.

The estimated net proceeds of the Rights Issue will be between HK\$204.98 million (assuming no outstanding Share Options are exercised on or before 1 September 2006) and HK\$219.02 million (assuming all outstanding Share Options are exercised on or before 1 September 2006). The Company plans to use the proceeds from the Rights Issue to expand its property portfolio as and when such opportunities arise and the balance, if any, for general working capital purposes.

The Rights Issue is conditional upon: (i) the Underwriting Agreement being not terminated by the Underwriter in accordance with the terms of the Underwriting Agreement; and (ii) the satisfaction of the conditions referred to below in the section headed “Conditions of the Rights Issue”. If the conditions are not fulfilled, the Rights Issue will not proceed.

Magical Profits, which owns approximately 36.74% of the issued share capital of the Company, has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will remain registered in its name at the close of business on the Record Date as they are on the date of the undertaking and that its entitlement under the Rights Issue will be taken up in full. Pursuant to the Underwriting Agreement, the Rights Shares (other than the Rights Shares to be allotted in respect of the Shares beneficially owned by Magical Profits) have been fully underwritten by the Underwriter.

The Rights Issue is subject to the approval of the Independent Shareholders at the SGM. In accordance with the Listing Rules, Magical Profits and its associates (as defined in the Listing Rules) will abstain from voting on the resolution to approve the Rights Issue at the SGM. An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of voting on the resolution to approve the Rights Issue at the SGM by way of poll. Access Capital Limited has been appointed to advise the independent board committee of the Company and the Independent Shareholders on whether the terms and conditions of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

WARNING OF THE RISKS OF DEALINGS IN SHARES AND RIGHTS SHARES

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate their obligations on the occurrence of certain events including force majeure. Please refer to the section headed "Termination of the Underwriting Agreement" for further details.

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 Thursday, 19 October 2006 to Thursday, 26 October 2006 will bear the risk that the Rights Issue may not become unconditional or may not proceed. If in any doubt, investors are recommended to consult their professional advisers. Shareholders and potential investors should exercise caution in dealing in the securities of the Company.

The last day for dealing in the Shares on a cum-rights basis is Thursday, 5 October 2006. The Shares will be dealt in on an ex-rights basis from Friday, 6 October 2006. To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be Monday, 16 October 2006. In order to be registered as members on the Record Date, any transfers of Shares (together with the relevant share certificates) must be lodged for registration by 4:00 p.m. on Monday, 9 October 2006 (the share register will be closed from Tuesday, 10 October 2006 to Monday, 16 October 2006, both dates inclusive).

RESUMPTION IN TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Monday, 28 August 2006 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on Thursday, 31 August 2006.

CAPITAL REORGANISATION

Background

The Company proposes to put forward the Capital Reorganisation, details of which are described below, for approval by the Shareholders:

- (a) the Share Consolidation pursuant to which every 10 issued and unissued Shares will be consolidated into one Consolidated Share. As at the date of this announcement, the authorised share capital of the Company is HK\$1,000,000,000 comprising 10,000,000,000 Shares of par value HK\$0.10 each, of which 1,985,510,079 Shares have been issued and fully paid. Immediately after the completion of the Share Consolidation, the authorised share capital of the Company will comprise 198,551,007 issued Consolidated Shares and 801,448,993 unissued Consolidated Shares of par value HK\$1.00 each; and

- (b) immediately after the Share Consolidation becoming effective, the Capital Reduction which involves: (i) the reduction of par value of each Consolidated Share in issue from HK\$1.00 each to HK\$0.01 each by cancelling HK\$0.99 paid up capital on each Consolidated Share in issue; (ii) the subdivision of each unissued Consolidated Share with par value of HK\$1.00 each into 100 new unissued Adjusted Shares of par value HK\$0.01 each; and (iii) transfer the credit arising from the cancellation of paid up capital of approximately HK\$196,565,496.93 to a capital reserve account of the Company. Accordingly, based on the number of Consolidated Shares in issue upon the Share Consolidation becoming effective, the issued share capital of the Company of HK\$198,551,007 comprising 198,551,007 Consolidated Shares will be reduced by approximately HK\$196,565,496.93 to approximately HK\$1,985,510.07 comprising 198,551,007 Adjusted Shares.

Upon the Capital Reduction becoming effective but before completion of the Rights Issue, based on the 1,985,510,079 Shares in issue as at the date of this announcement, the share capital of the Company will be as follows:

Authorised share capital	: HK\$1,000,000,000 divided into 100,000,000,000 Adjusted Shares of HK\$0.01 each
Issued share capital	: HK\$1,985,510.07 divided into 198,551,007 Adjusted Shares of HK\$0.01 each
Unissued share capital	: HK\$998,014,489.93 divided into 99,801,448,993 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.

Details of the arrangements with regard to the parallel trading arrangements, Adjusted Shares odd lot matching services and the free exchange of Adjusted Share certificates will be included in the Circular to be despatched to Shareholders.

Financial effects of the Capital Reorganisation

Other than the relevant 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 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

The Board believes that the Capital Reorganisation is beneficial to the Company and the Shareholders as a whole. The Board notices that the recent market prices of the Shares have been trading around a relative nominal value and the market price of the Shares will increase by 10 times theoretically upon the Share Consolidation becoming effective. The existing

Shares are presently traded in board lots of 5,000. It is proposed that the Adjusted Shares be also traded in board lots of 5,000. Based on the closing price quoted on the Stock Exchange on the Last Trading Day of HK\$0.11 per Share and the theoretical ex-rights price of approximately HK\$0.54 per Adjusted Share as stated below, the value per board lot of 5,000 Shares and 5,000 Adjusted Shares (after taking into account the Capital Reorganisation and the Rights Issue) are HK\$550 and HK\$2,700 respectively. The transaction cost per dollar value of each Adjusted Share will therefore be lower.

According to the Directors, after negotiations, the Underwriter indicated that it is willing to underwrite the Rights Shares at prices not higher than HK\$0.35 per Rights Share. As the par value of the Consolidated Shares after the Share Consolidation will be HK\$1.00, the Company will not be able to issue Consolidated Shares below such level. To facilitate the Rights Issue, the Board therefore proposes the Capital Reduction. The credit in the capital reserve account arising as a result of the Capital Reduction could be applied to future distributions to the Shareholders. As at the date of this announcement, the Board has no intention to make any distributions to the Shareholders.

After the completion of the Capital Reorganisation and the Rights Issue (based on the theoretical ex-right price of approximately HK\$0.54 per Adjusted Share), the market value of the Adjusted Shares will be above the par value of the Adjusted Shares of HK\$0.01 each. The Board is of the opinion that the proposed par value of the Adjusted Shares to be at HK\$0.01 each will provide the Company with greater flexibility for the issue of new Adjusted Shares in the future and is thus in the best interests of the Company and Shareholders as a whole. However, the Board has no present intention to issue further new Adjusted Shares except for the proposed Rights Issue.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon the following:

- (a) the passing by the Shareholders of the necessary resolutions at the SGM to approve the Share Consolidation and the Capital Reduction;
- (b) the publication of a notice in an appointed newspaper in Bermuda on a date not more than 30 days and not less than 15 days before the date as from which the Capital Reduction is to take effect, in accordance to section 46 of the Companies Act 1981 of Bermuda (as amended); and
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares.

The Capital Reorganisation is not conditional upon the Rights Issue being approved by the Independent Shareholders at the SGM.

Expected effective date of the Capital Reorganisation

Subject to the above conditions being fulfilled, the Capital Reorganisation is expected to become effective on Tuesday, 17 October 2006.

PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after the Capital Reorganisation becomes effective.

Issue statistics

Basis of the Rights Issue	: Three (3) Rights Shares for every Adjusted Share held on the Record Date
Number of Shares in issue	: 1,985,510,079 Shares as at the date of this announcement
Number of outstanding Share Options	: The Company has outstanding Share Options in issue as at the date of this announcement. The outstanding Share Options will lapse on 2 September 2006. Upon exercise of the rights attaching to the outstanding Share Options on or before 1 September 2006 in full, 133,683,600 Shares (which are convertible into 13,368,360 Adjusted Shares) will fall to be issued
Number of Adjusted Shares after completion of the Capital Reorganisation	: 198,551,007 Adjusted Shares (assuming no outstanding Share Options are exercised on or before 1 September 2006) or 211,919,367 Adjusted Shares (upon exercise of the outstanding Share Options on or before 1 September 2006 in full)
Number of Rights Shares	: not less than 595,653,021 Rights Shares (assuming no outstanding Share Options are exercised on or before 1 September 2006) and not more than 635,758,101 Rights Shares (assuming exercise of the outstanding Share Options on or before 1 September 2006 in full) Save for the outstanding Share Options, the Company has no outstanding options, warrants or other securities convertible into or giving rights to subscribe for the Shares as at the date hereof.
Subscription price per Rights Share	: HK\$0.35 per Rights Share with par value of HK\$0.01 each

Assuming that no Share Options have been exercised on or before 1 September 2006, the 595,653,021 nil-paid Rights Shares proposed to be provisionally allotted represent: (a) three times of the Company's issued share capital upon completion of the Capital Reorganisation; and (b) 75.0% of the Company's issued share capital upon completion of the Capital Reorganisation and as enlarged by the issue of the Rights Shares.

Qualifying Shareholders

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

To qualify for the Rights Issue, a Shareholder must be: (i) registered as a member of the Company at the close of business on the Record Date; and (ii) a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, owners must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch registrar in Hong Kong, Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Monday, 9 October 2006.

Holders of outstanding Share Options who wish to participate in the Rights Issue should exercise their Share Options in accordance with their respective terms on or before 1 September 2006 so as to enable them to be registered as a Shareholder on or before the Record Date.

Closure of register of members

The register of members of the Company will be closed from Tuesday, 10 October 2006 to Monday, 16 October 2006 (both dates inclusive). No transfers of Shares will be registered during this period.

Subscription price

The subscription price for the Rights Shares is HK\$0.35 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Rights Shares. The subscription price represents:

	Before Share Consolidation	After Share Consolidation
Rights Price	HK\$0.035	HK\$0.35
(a) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.110	HK\$1.10
<i>Discount (%)</i>	<i>68.18%</i>	<i>68.18%</i>
(b) Theoretical ex-right price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.054	HK\$0.54
<i>Discount (%)</i>	<i>35.19%</i>	<i>35.19%</i>

	Before Share Consolidation	After Share Consolidation
(c) 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	HK\$0.105	HK\$1.05
<i>Discount (%)</i>	<i>66.67%</i>	<i>66.67%</i>
(d) Net tangible asset value per Share based on the audited net tangible asset value of the Group of approximately HK\$1,030.0 million and 1,323,673,386 Shares in issue as at 31 March 2006 as stated in the annual report of the Company for the year ended 31 March 2006	HK\$0.778	HK\$7.78
<i>Discount (%)</i>	<i>95.50%</i>	<i>95.50%</i>

The Shares have been trading at prices substantially below the net tangible asset value per Share. In terms of historical prices, it is noted that closing prices of the Shares had been on a downward trend where during the period from 1 August 2005 up to the Last Trading Day, closing prices per Share had traded between a high of HK\$0.217 on 1 August 2005 and a low of HK\$0.100 on 23 and 24 August 2006.

The subscription price for the Rights Shares was determined after arm's length negotiations between the Company and the Underwriter. Making reference to the scale of the Rights Issue, the historical prices and the current market price of the Shares, the Underwriter indicated that it is willing to underwrite the Rights Shares at prices not higher than HK\$0.35 per Rights Share.

The Directors noted the substantial discounts above. However, taking into consideration the reasons for the Rights Issue as stated in the paragraph headed "Reasons for the Rights Issue and use of proceeds" below, the Directors consider the terms of the Rights Issue, including the subscription price, to be fair and reasonable and in the best interests of the Company and the Shareholders.

Basis of provisional allotment

The basis of the provisional allotment shall be three Rights Shares for every Adjusted Share, being not less than 595,653,021 Rights Shares and not more than 635,758,101 Rights Shares at a price of HK\$0.35 per Rights Share. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for.

Share certificates and refund cheques for Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on or before Monday, 6 November 2006

to those who have accepted and (where applicable) applied for, and paid for the Rights Shares by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Monday, 6 November 2006 by ordinary post to the applicants at their own risk.

Status of the Rights Shares

The Rights Shares, when allotted and 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 future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares.

Rights of Overseas Shareholders

The Company is currently making enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. If, based on legal opinions provided by the legal advisers, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place, the Rights Issue will not be available to such Overseas Shareholders. The basis for excluding the Non-Qualifying Shareholders, if any, from the Rights Issue will be set out in the Circular to be issued. The Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but the Company will not send any PAL and EAF to the Non-Qualifying Shareholders.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and before dealings in nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlement of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

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 but will give preference to topping-up odd lots to whole board lots.

Investors with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members

of the Company. Accordingly, investors whose Shares are registered in the names of nominee companies should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares will not be extended to them individually. Investors with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own name(s) prior to the Record Date.

For investors whose Shares are held by their nominee(s) and would like to have their names registered on the register of members of the Company, they must lodge all necessary document with the branch share registrar of the Company in Hong Kong for completion of the relevant registration by 4:00 p.m. on Monday, 9 October 2006.

The latest time for acceptance of Rights Shares is expected to be at 4:00 p.m. on Wednesday, 1 November 2006, or such later date as may be agreed between the Company and the Underwriter.

Underwriting arrangements

Underwriting agreement dated 28 August 2006

The Underwriter has agreed to fully underwrite up to 416,911,998 Rights Shares (being the total number of Rights Shares assuming exercise of outstanding Share Options on or before 1 September 2006 in full, less the 218,846,103 Rights Shares to be issued to and undertaken to be subscribed for by Magical Profits). To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Underwriter and its ultimate beneficial controlling shareholders are third parties independent of the Company and connected persons of the Company.

Conditions of the Rights Issue

The Rights Issue is conditional, among other things, on each of the following conditions being fulfilled:

- (i) the approval of the Capital Reorganisation by Shareholders at the SGM and the Capital Reorganisation becoming effective thereafter;
- (ii) the passing of the relevant resolution by the Independent Shareholders approving the Rights Issue at the SGM;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders; and
- (iv) the Listing Committee of the Stock Exchange agreeing to grant listings of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the dates specified in such approval and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Settlement Date.

If the conditions of the Rights Issue under the Underwriting Agreement are not fulfilled (or waived in whole or in part by the Underwriter) by the relevant dates and times specified in the Underwriting Agreement (or, in each case, such later date or time as the Underwriter may agree in writing with the Company pursuant to the Underwriting Agreement), then all liabilities of the parties thereto shall cease and terminate and neither party shall have any claim against the other (except in respect of any antecedent breaches and any matters or things arising out of or in connection with the Underwriting Agreement) and the irrevocable undertaking by Magical Profits to accept its entitlement under the Rights Issue will lapse. The Rights Issue will not proceed accordingly.

Commission

The Company will pay the Underwriter an underwriting commission of 1% of the aggregate subscription price of the Rights Shares underwritten by it, out of which the Underwriter may pay sub-underwriting fees. The Directors believe that the underwriting commission accords with market rates.

Undertaking from Magical Profits

As at the date of this announcement, Magical Profits, which is beneficially owned by the Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a Director, and members of her family (other than spouse)) is interested in 729,487,017 Shares, representing approximately 36.74% of the total issued share capital of the Company. Magical Profits has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will remain registered in its name at the close of business on the Record Date as they are on the date of the undertaking, being the date of the Underwriting Agreement, and that the Rights Shares to be allotted in respect of those Shares will be taken up in full, representing 218,846,103 Rights Shares. Magical 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:

1. 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 reasonable 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; or

2. the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
3. the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in 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 reasonable 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
4. the Prospectus Documents, when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly 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.

If the Underwriter exercises such right, the Rights Issue will not proceed. 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 payable under it (other than the underwriting commission).

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Friday, 6 October 2006. Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 19 October 2006 to Thursday, 26 October 2006 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares, the Adjusted Shares and 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 the Shares or the 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 Thursday, 19 October 2006 to Thursday, 26 October 2006 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Expected timetable

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

2006

Last day of dealings in Shares on a cum-rights basis	Thursday, 5 October
First day of dealings in Shares on an ex-rights basis	Friday, 6 October
Latest time for lodging transfers of Shares in order to qualify for the Rights Issue	4:00 p.m., Monday, 9 October
Register of members closes	Tuesday, 10 October to Monday, 16 October (both dates inclusive)
Latest time for return of proxy form of SGM (not less than 48 hours prior to SGM)	9:00 a.m., Saturday, 14 October
Expected date of SGM	9:00 a.m., Monday, 16 October
Record Date	Monday, 16 October
Effective date of the Capital Reorganisation	9:00 a.m., Tuesday, 17 October
Register of members re-opens	Tuesday, 17 October
Despatch of the Prospectus Documents	Tuesday, 17 October
Commencement of dealings in Adjusted Shares	Tuesday, 17 October

Original counter for trading in Shares
(in board lots of 5,000 Shares) closes9:30 a.m., Tuesday, 17 October

Temporary counter for trading in Adjusted Shares
in board lots of 500 Adjusted Shares
(in the form of existing share certificates) opens9:30 a.m., Tuesday, 17 October

Free exchange of existing share certificates for
new share certificates commencesTuesday, 17 October

First day of dealings in nil-paid Rights SharesThursday, 19 October

Latest time for splitting of nil-paid Rights Shares4:00 p.m., Monday, 23 October

Last day of dealings in nil-paid Rights SharesThursday, 26 October

Latest time for payment for and
acceptance of Rights Shares4:00 p.m., Wednesday, 1 November

Original counter for trading in Adjusted Shares
(in board lots of 5,000 Shares) re-opens9:30 a.m., Wednesday, 1 November

Parallel trading in Adjusted Shares (in the form
of new and existing certificates) begins9:30 a.m., Wednesday, 1 November

Designated broker starts to stand in the market
to provide matching servicesWednesday, 1 November

Rights Issue expected to become unconditionalafter 4:00 p.m., Friday, 3 November

Announcement of results of acceptance and
excess application of the Rights IssueMonday, 6 November

Despatch of refund cheques for wholly and
partially unsuccessful excess applicationsMonday, 6 November

Despatch of certificates for fully-paid Rights SharesMonday, 6 November

First day of dealings in the fully-paid Rights SharesWednesday, 8 November

Temporary counter for trading in Adjusted Shares in
board lots of 500 Adjusted Shares (in the form of
existing share certificates) closes4:00 p.m., Wednesday, 22 November

Parallel trading in Adjusted Shares (in the form
of new and existing certificates) ends4:00 p.m., Wednesday, 22 November

Designated broker ceases to stand in the market
to provide matching services4:00 p.m., Wednesday, 22 November

Free exchange of existing share certificates for
new share certificates endsMonday, 27 November

Dates or deadlines specified in this announcement are indicative only and may be exercised or varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to Shareholders appropriately.

Shareholding in the Company

Assuming **there is no exercise of Share Options on or before 1 September 2006**, the shareholding in the Company immediately after the Capital Reorganisation but before completion of the Rights Issue and immediately after completion of the Rights Issue is as follows:

	Existing Shareholding		Immediately after the Capital Reorganisation but before completion of the Rights Issue <i>Adjusted</i>		After completion of Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders) <i>Adjusted</i>		After completion of Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Magical Profits) <i>Adjusted</i>	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Magical Profits	729,487,017	36.74	72,948,701	36.74	291,794,804	36.74	291,794,804	36.74
Underwriter <i>(Note)</i>	—	—	—	—	—	—	376,806,918	47.45
Public	1,256,023,062	63.26	125,602,306	63.26	502,409,224	63.26	125,602,306	15.81
Total	<u>1,985,510,079</u>	<u>100.00</u>	<u>198,551,007</u>	<u>100.00</u>	<u>794,204,028</u>	<u>100.00</u>	<u>794,204,028</u>	<u>100.00</u>

Note: The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter and the sub-underwriters will not individually own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

Assuming **all the Share Options are exercised on or before 1 September 2006**, the shareholding in the Company immediately after the Capital Reorganisation but before completion of the Rights Issue and immediately after completion of the Rights Issue is as follows:

	Existing Shareholding		Immediately after the Capital Reorganisation but before completion of the Rights Issue <i>Adjusted</i>		After completion of Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders) <i>Adjusted</i>		After completion of Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Magical Profits) <i>Adjusted</i>	
	Shares	%	Shares	%	Shares	%	Shares	%
Magical Profits	729,487,017	34.42	72,948,701	34.42	291,794,804	34.42	291,794,804	34.42
Underwriter (Note)	—	—	—	—	—	—	416,911,998	49.18
Public	1,389,706,662	65.58	138,970,666	65.58	555,882,664	65.58	138,970,666	16.40
Total	<u>2,119,193,679</u>	<u>100.00</u>	<u>211,919,367</u>	<u>100.00</u>	<u>847,677,468</u>	<u>100.00</u>	<u>847,677,468</u>	<u>100.00</u>

Note: The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter and the sub-underwriters will not individually own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

The Underwriter is a wholly-owned subsidiary of Get Nice Holdings Limited (stock code: 64) (“Get Nice Holdings”), a listed company on the main board of the Stock Exchange. According to the Underwriter, Get Nice Holdings is owned as to approximately 32.15% by Honeylink Agents Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and as to approximately 67.85% by the public as at the date of this announcement. The Underwriter and its ultimate controlling shareholders are Independent Third Parties and are not parties acting in concert with Magical Profits. The sub-underwriters and their ultimate beneficial owners are Independent Third Parties and are not parties acting in concert with Magical 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 compliance with the public float requirements under Rule 8.08 of the Listing Rules upon completion of the Rights Issue.

The Stock Exchange has stated that it will closely monitor trading in the Adjusted Shares following the completion of the Rights Issue. If less than 25% (or such lower percentage as may be allowed under the Listing Rules) of the Adjusted Shares are held by the public, it will constitute a breach of the Listing Rules, and if the Stock Exchange believes that:

- a false market exists or may exist in the trading in the Adjusted Shares; or
- there are too few Adjusted Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in the Adjusted Shares until a sufficient public float is attained.

Reasons for the Rights Issue and use of proceeds

The Group is principally engaged in: (a) the sourcing and export of cotton-based knitted garments for infants, children and women; and (b) property investment.

According to the annual report of the Group for the year ended 31 March 2006 (“**Annual Report**”), the Group recorded a turnover of approximately HK\$489.7 million (2005: approximately HK\$590.0 million), representing a decrease of approximately 17.0% from 2005. The decrease was mainly due to: (a) the cancellation of quota system which affected the product price of the Group; and (b) reduction in the residential units available for sale at Fa Yuen Plaza in Mongkok during the year.

As stated in the Annual Report, commercial property investment will be the focal strategic development of the Group in the future. The Directors maintain the view that the local property market will continue to benefit from Hong Kong’s steady economic growth and the expanded Individual Visit Scheme will continue boosting tourism and the retail industry in Hong Kong. Rental income is thus expected to increase, especially in prime areas such as Central, Causeway Bay, Tsimshatsui and Mongkok. In July 2006, the Company acquired from an Independent Third Party, Happy Light Investments Limited, which held 18 out of 20 units in a building situated in Nos. 1 and 1A Victory Avenue and Nos. 3 and 3A Victory Avenue in Kowloon, Hong Kong for an aggregate consideration of approximately HK\$139.71 million. (“**Victory Avenue Acquisition**”). Details of which are set out in the circular of the Company dated 3 July 2006. Following these transactions, the management has continued to be active in identifying potential projects in prime areas in Hong Kong, although the Company has yet to identify any specific property projects as at the date hereof. In addition to its plans of expanding its property portfolio in Hong Kong, the Group will also explore opportunities in other Asian regions such as Macau and the PRC.

Property investments typically require substantial amount of capital and the Directors are of the view that suitable investment opportunities may arise at any time and investment decisions may have to be made within a short period of time. Sufficient cash resources will therefore be necessary in order for the Group to be competitive in securing such opportunities.

As at the date of this announcement, the Group has bank balance and cash of approximately HK\$120.0 million. Such amount has however been earmarked for: (i) approximately HK\$30.0 million for the purchase of the remaining units at the building at Victory Avenue as described above and the related professional fees; (ii) major renovations and maintenance works of its existing property portfolio; and (iii) general working capital for the Group's garment operation.

In view of the above capital requirements, the Directors consider that the Rights Issue is appropriate at this juncture notwithstanding the substantial discounts required of the subscription price of the Rights Shares to the reference prices as stated in the paragraph headed "Subscription price" above. The Directors therefore consider the terms of the Rights Issue, including the subscription price, to be fair and reasonable and in the best interests of the Company and the Shareholders.

The Directors have considered other ways of fund raising such as bank borrowing and placing of new Shares and are of the opinion that bank borrowing will incur interest costs while placing of new Shares will result in dilution of the interests of Shareholders. The Rights Issue will enhance the capital base of the Group while allowing Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. 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 estimated expenses of the Rights Issue amount to approximately HK\$3.50 million and will be borne by the Company. The estimated net proceeds of the Rights Issue will be between HK\$204.98 million (assuming no outstanding Share Options are exercised on or before 1 September 2006) and HK\$219.02 million (assuming all outstanding Share Options are exercised on or before 1 September 2006). The Company plans to use the proceeds from the Rights Issue to expand its property portfolio as and when such opportunities arise and the balance, if any, for general working capital purposes.

PREVIOUS FUND RAISING EXERCISE OF THE COMPANY

The table below summarises the fund raising exercise of the Company in the past 12 months ending on the date of this announcement:

Date of announcement	Event	Net proceeds raised	Original intended use of proceeds	Actual use of proceeds up to the date of this announcement
8 March 2006	Rights issue on the basis of one rights share for every two shares held	HK\$77.9 million	The Company plans to use the proceeds from the Rights Issue to expand its property portfolio as and when such opportunities arise and the balance, if any, for general working capital purposes	HK\$77.9 million had been fully utilised as partial payment for the Victory Avenue Acquisition

Save for the above, the Company does not have any fund raising exercise in the past 12 months ending on the date of this announcement.

RESUMPTION IN TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Monday, 28 August 2006 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on Thursday, 31 August 2006.

GENERAL

The Circular containing, inter alia, further information on the Capital Reorganisation and the Rights Issue, together with a notice of the SGM containing necessary resolution(s) to approve the above will be despatched to the Shareholders as soon as practicable. In accordance with the Listing Rules, the Capital Reorganisation will be subject to the approval by the Shareholders at the SGM. The resolution on the Rights Issue will be subject to the approval by the Independent Shareholders at the SGM by way of poll, where Magical Profits and its associates (as defined in the Listing Rules) will abstain from voting.

An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of voting on the resolution to approve the Rights Issue at the SGM by way of poll. Access Capital Limited has been appointed to advise the independent board committee of the Company and the Independent Shareholders on whether the terms and conditions of the

Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Circular will also contain the letter of advice from Access Capital Limited and the recommendation of the independent board committee of the Company to the Independent Shareholders.

Subject to the Capital Reorganisation and the Rights Issue being approved at the SGM, the Prospectus or Prospectus Documents, where appropriate, containing further information on the Rights Issue will be despatched to Shareholders as soon as practicable. Shareholders and potential investors should exercise caution in dealing in the Shares.

As of the date of this announcement, the executive directors of the Company are Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu and the independent non-executive directors are Mr. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Acceptance Date”	1 November 2006 (or such other date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment of, Rights Shares)
“Adjusted Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company after the Capital Reorganisation becoming effective
“Board”	the board of Directors
“Business Day”	a day on which banks are generally open for business for more than five hours in Hong Kong
“Capital Reduction”	the proposed: (i) reduction of the par value of each Consolidated Share in issue from HK\$1.00 each to an Adjusted Share of HK\$0.01 each by cancelling HK\$0.99 paid up capital on each Consolidated Share in issue; (ii) subdivision of each unissued Consolidated Share into 100 new unissued Adjusted Share of HK\$0.01 each; and (iii) transfer of the credit arising therefrom to the capital reserve account
“Capital Reorganisation”	the Share Consolidation and the Capital Reduction
“Circular”	the circular containing further information on the Capital Reorganisation and the Rights Issue, together with the notice of SGM to approve the relevant resolutions

“Company”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Consolidated Share(s)”	share(s) of HK\$1.00 each in the share capital of the Company after the Share Consolidation becoming effective
“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) to be issued in connection with the Rights Issue
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Magical 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
“Last Trading Day”	25 August 2006, being the last trading day before the suspension of the trading of the Shares, pending the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Magical Profits”	Magical Profits Limited, a company incorporated in the British Virgin Islands with limited liability
“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 the relevant regulatory body or stock exchange in that place
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong or Bermuda
“PAL(s)”	the provisional allotment letter(s) to be issued in connection with the Rights Issue

“PRC”	The People’s Republic of China
“Prospectus”	the prospectus to be issued containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	16 October, 2006 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
“Rights Issue”	the issue by way of rights of three Rights Shares for every Adjusted Share in issue on the Record Date at a price of HK\$0.35 per Rights Share
“Rights Share(s)”	new Adjusted Share(s) to be issued and allotted under the Rights Issue, being not less than 595,653,021 Adjusted Shares and not more than 635,758,101 Adjusted Shares
“Settlement Date”	the date being the second Business Day following the Acceptance Date
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company expected to be held on Monday, 16 October 2006 at which resolutions will be proposed to consider and, if thought fit, approve the Capital Reorganisation and the Rights Issue
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company before the Capital Reorganisation becoming effective
“Share Consolidation”	the consolidation of every 10 Shares into one Consolidated Share
“Shareholder(s)”	holder(s) of Share(s) or Adjusted Share(s) (as the case may be)
“Share Option(s)”	the outstanding share option(s), which will lapse on 2 September 2006, granted by the Company pursuant to the share option scheme of the Company adopted on 18 February 2002

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underwriter”	Get Nice Investment Limited, a deemed licensed corporation to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company
“Underwriting Agreement”	the underwriting agreement dated 28 August 2006 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 dollar, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

By order of the Board of
Easyknit International Holdings Limited
Tse Wing Chiu, Ricky
President and Chief Executive Officer

Hong Kong, 30 August 2006

** For identification only*