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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

ONGOING CONNECTED TRANSACTIONS REDUCTION IN AUTHORISED SHARE CAPITAL

CONNECTED TRANSACTIONS

Consequent upon the amendments of the Listing Rules which took effect on 31st March, 2004, the Company is required to comply with new requirements under the amended Listing Rules relating to the LTC Transactions and the KPF Transactions from 1st April, 2004 onwards. Independent Shareholders' approval will be sought in respect of the LTC Transactions and the KPF Transactions subject to the LTC Cap and the KPF Cap respectively.

As shown in the audited consolidated financial statements of the Group for the two years ended 31st March, 2003, the aggregate value of (i) the LTC Purchase Transactions amounted to approximately HK\$189,397,000 and HK\$205,381,000 respectively and (ii) the LTC Sale Transactions amounted to approximately HK\$1,778,000 and HK\$8,504,000 respectively. Pursuant to the records of the Group, the aggregate value for the year ended 31st March, 2004 of (i) the LTC Purchase Transactions amounted to approximately HK\$182,890,000 and (ii) the LTC Sale Transactions amounted to approximately HK\$10,308,000.

As shown in the audited consolidated financial statements of the Group for the two years ended 31st March, 2003, the aggregate value of (i) the KPF Purchase Transactions amounted to approximately HK\$40,314,000 and HK\$50,236,000 respectively and (ii) the KPF Sale Transactions amounted to approximately HK\$3,282,000 and HK\$8,465,000 respectively. Pursuant to the records of the Group, the aggregate value for the year ended 31st March, 2004 of (i) the KPF Purchase Transactions amounted to approximately HK\$62,959,000 and (ii) the KPF Sale Transactions amounted to approximately HK\$17,532,000.

REDUCTION IN AUTHORISED SHARE CAPITAL

In order to reduce the compliance costs of the Company, the Company proposes to reduce its authorised share capital from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued Shares.

A circular containing, among other things, details of the LTC Transactions and the KPF Transactions, the advice of the IFA and the recommendations of the Independent Board Committee, together with a notice convening the SGM will be despatched to the Shareholders as soon as practicable.

INTRODUCTION

The Company is an investment company and, through its subsidiaries and its associate, Asia Alliance Holdings Limited, is engaged in the sourcing and export of cotton-based knitted garments for women, children and infants, bleaching and dyeing, property investments and provision of wireless communication services.

LTC TRANSACTIONS

On 10th May, 2004, the Company and Mr. Louie entered into the LTC Agreement pursuant to which, amongst other things, the Group has agreed (i) to purchase garments, apparel, clothing and textiles from and (ii) to sell fabrics and provide bleaching and dyeing services to the LTC Companies for a period of three years commencing from 1st April, 2004. The LTC Agreement specifies the maximum amount (in monetary terms) of (i) purchase orders which the Group has agreed to place with the LTC Companies and (ii) sales of fabric and bleaching and dyeing services by the Group to the LTC Companies for those three years. Each purchase order for garments by the Group and sale of fabrics to the LTC Companies and provision of bleaching and dyeing services to the LTC Companies will be made subject to orders placed by the Group or the LTC Companies (as the case may be) with the LTC Companies or the Group (as the case may be) from time to time, at prices agreed between them on a case-by-case basis by reference to the prevailing rates charged by the relevant party to independent customers which will be on normal commercial terms.

In addition, under the terms of the LTC Agreement, the Company has agreed to (i) prepay the LTC Companies for the garments to be manufactured for the Group and (ii) grant trade credit to the LTC Companies in respect of the sales of fabrics and provision of bleaching and dyeing services to the LTC Companies. Such prepayment and trade credit are interest free and repayable by the LTC Companies on demand and the maximum amount of which will not exceed 50 per cent. of the value of the relevant order. The terms of the prepayment and the trade credit granted by the Group to the LTC Companies are normal commercial terms which are common in the garment industry in Hong Kong. The Group has also provided similar arrangements to its other independent third party suppliers.

As shown in the audited consolidated financial statements of the Group for the two years ended 31st March, 2003 and the records of the Group for the year ended 31st March, 2004, the aggregate value of the LTC Transactions are as follows:-

| For the year ended 31st March | 2002 (audited) HK\$'000 | 2003 (audited) HK\$'000 | 2004 (based on management accounts) HK\$'000 |
|---|--|--|---|
| Purchase of garments from the LTC Companies | 189,397 | 205,381 | 182,890 |
| Sales of fabric and provision of bleaching and dyeing services to the LTC Companies | 1,778 | 8,504 | 10,308 |

Pursuant to the terms of the LTC Agreement and based on (i) the historical transaction value between the Group and the LTC Companies for the three years ended 31st March, 2004 (ii) the estimated growth rate of the purchases by the Group from the LTC Companies of approximately 10 per cent. per annum and (iii) the arrangement that the value of the sales of fabrics and provision of bleaching and dyeing services by the Group to the LTC Companies not to exceed 30 per cent. of the purchases by the Group from the LTC Companies, the Group expects that the maximum value of the LTC Transactions for each of the three financial years ended 31st March, 2007 respectively are likely to be as follows but emphasis that this is an estimate only:-

| For the year ended 31st March | 2005 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 |
|---|--------------------------|--------------------------|--------------------------|
| Purchase of garments from the LTC Companies | 193,000 | 212,300 | 233,530 |
| Sales of fabric and provision of bleaching and dyeing services to the LTC Companies | 57,900 | 63,690 | 70,059 |

Mr. Louie is the nephew of Ms. Lui Yuk Chu, a Director and has been deemed to be a connected person of the Company under the Listing Rules. As the LTC Transactions will constitute “non-exempt continuing connected transactions” of the Company under the Listing Rules, they will be subject to Independent Shareholders’ approval under Chapter 14A of the Listing Rules. Magical Profits will abstain from voting at the SGM to approve the LTC Transactions which will be subject to the following conditions:-

(1) the LTC Transactions will be:-

- (i) entered into in the ordinary and usual course of business of the Company;
- (ii) conducted on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than the terms available to or from independent third parties as the case may be; and

- (iii) entered into in accordance with the relevant terms and conditions governing them which are fair and reasonable so far as the Shareholders are concerned and in the interest of the Company as a whole.
- (2) the aggregate value of the LTC Purchase Transactions shall not exceed HK\$193,000,000, HK\$212,300,000 and HK\$233,530,000 for each of the three financial years ending 31st March, 2005, 31st March, 2006 and 31st March, 2007 respectively;
- (3) the aggregate value of the LTC Sale Transactions shall not exceed HK\$57,900,000, HK\$63,690,000 and HK\$70,059,000 for each of the three financial years ending 31st March, 2005, 31st March, 2006 and 31st March, 2007 respectively; and
- (4) compliance by the Company with all other relevant requirements under the Listing Rules regarding the LTC Transactions.

KPF TRANSACTIONS

On 10th May, 2004, the Company and Ms. Koon entered into the KPF Agreement pursuant to which, amongst other things, the Group has agreed (i) to purchase garments, apparel, clothing and textiles from and (ii) to sell fabrics and provide bleaching and dyeing services to the KPF Companies for a period of three years commencing from 1st April, 2004. The KPF Agreement specifies the maximum amount (in monetary terms) of (i) purchase orders which the Group has agreed to place with the KPF Companies and (ii) sales of fabric and bleaching and dyeing services by the Group to the KPF Companies for those three years. Each purchase order for garments by the Group and sale of fabrics to the KPF Companies and provision of bleaching and dyeing services to the KPF Companies will be made subject to orders placed by the Group or the KPF Companies (as the case may be) with the KPF Companies or the Group (as the case may be) from time to time, at prices agreed between them on a case-by-case basis by reference to the prevailing rates charged by the relevant party to independent customers which will be on normal commercial terms.

In addition, under the terms of the KPF Agreement, the Company has agreed to (i) prepay the KPF Companies for the garments to be manufactured for the Group and (ii) grant trade credit to the KPF Companies in respect of the sales of fabrics and provision of bleaching and dyeing services to the KPF Companies. Such prepayment and trade credit are interest free and repayable by the KPF Companies on demand and the maximum amount of which will not exceed 50 per cent. of the value of the relevant order. The terms of the prepayment and the trade credit granted by the Group to the KPF Companies are normal commercial terms which are common in the garment industry in Hong Kong.

As shown in the audited consolidated financial statements of the Group for the two years ended 31st March, 2003 and the records of the Group for the year ended 31st March, 2004, the aggregate value of the KPF Transactions are as follows:-

| For the year ended 31st March | 2002 (audited) HK\$'000 | 2003 (audited) HK\$'000 | 2004 (based on management accounts) HK\$'000 |
|---|--|--|---|
| Purchase of garments from the KPF Companies | 40,314 | 50,236 | 62,959 |
| Sales of fabric and provision of bleaching and dyeing services to the KPF Companies | 3,282 | 8,465 | 17,532 |

Pursuant to the terms of the KPF Agreement and based on (i) the historical transaction value between the Group and the KPF Companies for the three years ended 31st March, 2004 and (ii) the arrangement that the value of the sales of fabrics and provision of bleaching and dyeing services by the Group to the KPF Companies not to exceed 30 per cent. of the purchases by the Group from the KPF Companies, the Group expects that the maximum value of the KPF Transactions for each of the three financial years ended 31st March, 2007 respectively are likely to be as follows but emphasis that this is an estimate only:-

| For the year ended 31st March | 2005 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 |
|---|--------------------------|--------------------------|--------------------------|
| Purchase of garments from the KPF Companies | 63,000 | 63,000 | 63,000 |
| Sales of fabric and provision of bleaching and dyeing services to the KPF Companies | 18,900 | 18,900 | 18,900 |

Ms. Koon is the sister of Mr. Koon Wing Yee, a Director and is a connected person of the Company under the Listing Rules. As the KPF Transactions will constitute “non-exempt continuing connected transactions” of the Company under the Listing Rules, they will be subject to Independent Shareholders’ approval under Chapter 14A of the Listing Rules. Magical Profits will abstain from voting at the SGM to approve the KPF Transactions which will be subject to the following conditions:-

- (1) the KPF Transactions will be:-
 - (i) entered into in the ordinary and usual course of business of the Company;
 - (ii) conducted on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than the terms available to or from independent third parties as the case may be; and
 - (iii) entered into in accordance with the relevant terms and conditions governing them which are fair and reasonable so far as the Shareholders are concerned and in the interest of the Company as a whole.

- (2) the aggregate value of the KPF Purchase Transactions shall not exceed HK\$63,000,000 for each of the three financial years ending 31st March, 2005, 31st March, 2006 and 31st March, 2007 respectively;
- (3) the aggregate value of the KPF Sale Transactions shall not exceed HK\$18,900,000 for each of the three financial years ending 31st March, 2005, 31st March, 2006 and 31st March, 2007 respectively; and
- (4) compliance by the Company with all other relevant requirements under the Listing Rules regarding the KPF Transactions.

REASONS AND BENEFITS FOR THE LTC TRANSACTIONS AND THE KPF TRANSACTIONS

The LTC Transactions and the KPF Transactions will be conducted in the ordinary and usual course of business of the Group and in accordance with the terms of the relevant agreements, which were negotiated on an arm's length basis. In view of the good long term relationships between the Group and the LTC Companies and the KPF Companies, the Directors are of a view that the Group's business with the LTC Companies and the KPF Companies will continue to grow and will further enhance the growth prospects of the Group's business. The Directors believe that the LTC Agreement and the KPF Agreement will ensure a steady supply of garments to the Group and a stable source of business for the Group. The Directors consider that the LTC Transactions and the KPF Transactions are in the interest of the Company and the Shareholders and that their bases are fair and reasonable so far as the Company and the Shareholders are concerned.

REDUCTION IN AUTHORISED SHARE CAPITAL

The Company proposes the reduction of share capital to reduce compliance costs arising in Bermuda (annual government fees) which relate in part to the size of its authorised share capital. As at the date of this announcement, the authorised share capital of the Company is HK\$3,000,000,000 divided into 30,000,000,000 Shares. The Company's current issued share capital is HK\$88,244,892.40 divided into 882,448,924 Shares. In order to reduce the compliance costs of the Company, the Company proposes to reduce its authorised share capital from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued Shares. The reduction of authorised share capital will be in accordance with the Companies Act and the bye-laws of the Company, which require the passing of a special resolution to be proposed for consideration by the Shareholders at the SGM.

GENERAL

An Independent Board Committee will be constituted to make a recommendation to the Independent Shareholders in respect of the resolution to approve the LTC Transactions and the KPF Transactions to be subject to the LTC Cap and the KPF Cap respectively. The IFA has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the LTC Transactions and the KPF Transactions and the LTC Cap and the KPF are fair and reasonable so far as the Shareholders

are concerned. Save and except for the shareholding of Magical Profits in the Company, none of Mr. Louie, Ms. Lui Yuk Chu, Ms. Koon and Mr. Koon Wing Yee and their respective associates has any other shareholding in the Company. Magical profits will abstain from voting at the SGM to approve the LTC Transactions and the KPF Transactions.

A circular containing, among other things, details of the LTC Transactions and the KPF Transactions, the advice of the IFA and the recommendations of the Independent Board Committee, together with a notice convening the SGM will be despatched to the Shareholders as soon as practicable.

As of the date of this announcement, the executive directors of the Company are Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu and the independent non-executive directors are Mr. Wong Sui Wah, Michael and Mr. Pun Hei, Hectar.

DEFINITIONS

The following terms are used in this announcement with the meanings assigned to them below:-

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| “associate” | the meaning ascribed thereto in the Listing Rules |
| “Board” | the board of Directors |
| “Companies Act” | the Companies Act 1981 of Bermuda (as amended) |
| “Company” | Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange and the SGX-ST |
| “Director(s)” | director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “IFA” | Access Capital Limited, the independent financial adviser to the Independent Board Committee and a corporation deemed licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and engaged in types 1, 4, 6 and 9 regulated activities |
| “Independent Board Committee” | a board committee comprising of the independent non-executive Directors of the Company to be constituted to make recommendations to the Shareholders in respect of the LTC Transactions and the KPF Transactions |
| “Independent Shareholders” | the meaning ascribed to it under Chapter 14A of the Listing Rules |
| “KPF Agreement” | the agreement entered into between the Company and Ms. Koon on 10th May, 2004 |

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|-----------------------------|--|
| “KPF Cap” | the maximum value of KPF Transactions for each of the years ending 31st March, 2007 as set out under “KPF Transactions” |
| “KPF Companies” | companies controlled by Ms. Koon |
| “KPF Purchase Transactions” | the purchase of garments, apparel, clothing and textiles by the Group from the KPF Companies pursuant to the KPF Agreement |
| “KPF Sale Transactions” | the sale of fabrics and provision of bleaching and dyeing services by the Group to the KPF Companies pursuant to the KPF Agreement |
| “KPF Transactions” | the KPF Purchase Transactions and the KPF Sale Transactions pursuant to the KPF Agreement |
| “LTC Agreement” | the agreement entered into between the Company and Mr. Louie on 10th May, 2004 |
| “LTC Cap” | the maximum value of the LTC Transactions for each of the years ending 31st March, 2007 as set out under “LTC Transactions” |
| “LTC Companies” | companies controlled by Mr. Louie |
| “LTC Purchase Transactions” | the purchase of garments, apparel, clothing and textiles by the Group from the LTC Companies pursuant to the LTC Agreement |
| “LTC Sale Transactions” | the sale of fabrics and provision of bleaching and dyeing services by the Group to the LTC Companies pursuant to the LTC Agreement |
| “LTC Transactions” | the LTC Purchase Transactions and the LTC Sale Transactions pursuant to the LTC Agreement |
| “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 and 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) |
| “Mr. Louie” | Mr. Louie Tsz Chung, the nephew of Ms. Lui Yuk Chu, a Director |
| “Ms. Koon” | Ms. Koon Po Fun, the sister of Mr. Koon Wing Yee, a Director |

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| “SGX-ST” | Singapore Exchange Securities Trading Limited |
| “Share(s)” | share(s) of HK\$0.10 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of Shares |
| “SGM” | the special general meeting of the Company to approve, amongst others, the LTC Transactions, the KPF Transactions and the reduction in the authorised share capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |

By order of the Board
Easyknit International Holdings Limited
Koon Wing Yee
President and Chief Executive Officer

Hong Kong, 20th May, 2004

** for identification only*

Please also refer to the published version of this announcement in The Standard.