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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)

**PROPOSALS FOR REDUCTIONS OF
SHARE PREMIUM ACCOUNT
AND
CAPITAL RESERVE ACCOUNT
AND
OFFSETTING OF ACCUMULATED LOSSES**

Proposed Reductions

The Board intends to put forward to the Shareholders a proposal to reduce the entire amount standing to the credit of the share premium account and the capital reserve account of the Company. As at 31st March 2004, the amount standing to the credit of the share premium account of the Company was HK\$1,117,131,000, the amount standing to the credit of the capital reserve account of the Company was HK\$895,932,000 and the amount of Accumulated Losses as at 31st March 2004 was HK\$1,785,508,000. The amount standing to the credit of the share premium account of the Company as at the Effective Date will be not more than HK\$1,122,147,000 (being the approximate amount of the share premium account assuming that there has been exercise in full of subscription rights attaching to all outstanding share options). It is proposed that part of the credits arising from the share premium account and the capital reserve account of the Company in the sum of HK\$1,785,508,000 will be applied to offset the Accumulated Losses in full and the remaining balance of the credit arising from the Proposed Reductions in the sum of HK\$227,555,000 will be transferred to the contributed surplus account of the Company. As a result, the amount standing to the credit of the contributed surplus account of the Company will be increased from HK\$48,369,000 to HK\$275,924,000 and the Company will be able to declare dividends or distributions to the Shareholders as and when the Board considers appropriate.

The Proposed Reductions are conditional upon the passing of a special resolution to approve the Proposed Reductions at the SGM.

A circular containing, among other things, further information on the Proposed Reductions, together with a notice convening the SGM of the Company will be despatched to the Shareholders and, for information only, holders of share options of the Company as soon as practicable.

The Board proposes to convene the SGM on 23rd August 2004 prior to the AGM to consider and, if thought fit, pass a special resolution to approve the Proposed Reductions to offset the Accumulated Losses.

PROPOSED REDUCTIONS

The Board proposes that the entire amount standing to the credit of the share premium account and the capital reserve account of the Company (which as at 31st March 2004 was HK\$1,117,131,000 and HK\$895,932,000 respectively as per the audited financial statements of the Company and shall be not more than HK\$1,122,147,000 as at the Effective Date assuming that there has been exercise in full of the subscription rights attaching to all outstanding share options) be reduced pursuant to Section 46 of the Companies Act and bye-law 66(B) of the Bye-laws and part of the credit arising therefrom in the sum of HK\$1,785,508,000 will be directly applied to offset the Accumulated Losses and the remaining balance of the credit arising from the Proposed Reductions in the sum of HK\$227,555,000 will be transferred to the contributed surplus account of the Company. As a result, the amount standing to the credit of the contributed surplus account of the Company will be increased from HK\$48,369,000 to HK\$275,924,000.

Reasons for the Proposed Reductions

As at 31st March 2004, the amount standing to the credit of the share premium account and capital reserve account of the Company were HK\$1,117,131,000 and HK\$895,932,000, and the amount of the Accumulated Losses was HK\$1,785,508,000. Assuming the exercise in full of the subscription rights attaching to all outstanding share options, the amount standing to the credit of the share premium account of the Company will be not more than HK\$1,122,147,000 as at the Effective Date. It is proposed that the amount standing to the credit of the share premium account and the capital reserve account of the Company be reduced and the sum of HK\$1,785,508,000 arising from such reduction be applied towards the elimination of the Accumulated Losses in full. The Board considers that the elimination of the Accumulated Losses in full will give the Company more flexibility to declare dividends or distributions to the Shareholders as and when the Board considers appropriate.

Effects of the Proposed Reductions

Save for the expenses to be incurred in relation to the Proposed Reductions, the Board considers that the implementation of the Proposed Reductions will not, in themselves, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders in the underlying assets of the Company. The Board considers that the Proposed Reductions are in the interests of the Company and the Shareholders as a whole.

Condition of the Proposed Reductions

The Proposed Reductions are conditional upon the passing of a special resolution to approve the Proposed Reductions at the SGM.

It is expected that the Proposed Reductions will become effective immediately upon the passing of the relevant resolution to approve the Proposed Reductions.

GENERAL

A circular containing, among other things, further information on the Proposed Reductions together with a notice convening the SGM, will be despatched to the Shareholders and, for information only, holders of share options of the Company as soon as practicable.

DEFINITION

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“AGM”	the 2004 annual general meeting of the Company convened to be held on 23rd August 2004 at 9:45 a.m. (or so soon thereafter as the SGM shall have been concluded or adjourned)
“Accumulated Losses”	the audited accumulated losses of the Company as at 31st March 2004
“Board”	the board of Directors
“Bye-laws”	the Bye-laws of the Company
“Capital Reserves Reduction”	the proposed reduction of the entire capital reserve account of the Company referred to in the section headed “ Proposed Reductions”
“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 Singapore Exchange Securities Trading Limited
“Directors”	the directors of the Company
“Effective Date”	the date on which the Share Premium Reduction and Capital Reserves Reduction shall become effective, which is expected to be immediately after the SGM
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

“Proposed Reductions”	the Share Premium Reduction and the Capital Reserves Reduction
“SGM”	the special general meeting of the Company to be held on 23rd August 2004 at 9:30 a.m. before the AGM
“Shareholder(s)”	the holder(s) of the share(s) of the Company
“Share Premium Reduction”	the proposed reduction of the entire share premium account of the Company referred to in the section headed “Proposed Reductions”
“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, 26th July 2004

As at the date of this announcement, the Board comprises five Directors of which Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu are Executive Directors; and Mr. Wong Sui Wah, Michael and Mr. Pun Hei, Hectar are Independent Non-executive Directors.

** For identification purposes only*

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