
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Easyknit International Holdings Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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
ADOPTION OF NEW BYE-LAWS****Independent Financial Adviser to the Independent Board Committee**

A letter from the board of directors of Easyknit International Holdings Limited is set out on pages 5 to 11 of this circular. A letter from the independent board committee of Easyknit International Holdings Limited is set out on pages 12 to 13 of this circular. A letter from Access Capital Limited, the independent financial adviser, to the independent board committee is set out on pages 14 to 23 of this circular.

A notice convening a special general meeting of Easyknit International Holdings Limited to be held on 28th July, 2004 at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. is set out on pages 32 to 34 of this circular. Whether or not shareholders are able to attend the special general meeting, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's principal place of business in Hong Kong at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the special general meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the special general meeting or any adjournment thereof in person, should they so wish.

* For identification only

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DEFINITIONS

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

“Announcement”	the announcement issued by the Company dated 20th May, 2004
“Asia Alliance”	Asia Alliance Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Asia Alliance Group”	Asia Alliance and its subsidiaries
“associate”	the meaning ascribed thereto in the Listing Rules
“Best Ability”	Best Ability Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Asia Alliance
“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
“Disposal”	the disposal by Easyknit International Trading Company and the acquisition by Best Ability of the entire issued share capital of Po Cheong, details of which were set out in the joint announcement issued by Asia Alliance and the Company dated 5th March, 2004
“Easyknit International Trading Company”	Easyknit International Trading Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“IFA” or “Access Capital”	Access Capital Limited, the independent financial adviser to the Independent Board Committee and a corporation deemed licensed under the SFO and engaged in types 1, 4, 6 and 9 regulated activities

DEFINITIONS

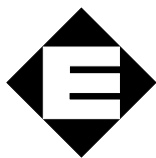
“Independent Board Committee”	a board committee comprising of the independent non-executive Directors of the Company constituted to make recommendations to the Shareholders in respect of the LTC Purchase Transactions and the KPF Purchase Transactions
“Independent Shareholders”	the meaning ascribed thereto under Chapter 14A of the Listing Rules
“KPF Agreement”	the agreement entered into between the Company and Ms. Koon on 10th May, 2004 as supplemented by the KPF Supplemental Letter
“KPF Cap”	the maximum value of the KPF Purchase Transactions in each financial year up to and including that ending on 31st March, 2007 as set out under the section headed “KPF Purchase 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 Supplemental Letter”	the supplemental letter dated 15th June, 2004 entered into between the Company and Ms. Koon
“KPF Transactions”	the KPF Purchase Transactions and the KPF Sale Transactions pursuant to the KPF Agreement
“Latest Practicable Date”	24th June, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“LTC Agreement”	the agreement entered into between the Company and Mr. Louie on 10th May, 2004 as supplemented by the LTC Supplemental Letter
“LTC Cap”	the maximum value of the LTC Purchase Transactions in each financial year up to and including that ending on 31st March, 2007 as set out under the section headed “LTC Purchase Transactions”
“LTC Companies”	companies controlled by Mr. Louie

DEFINITIONS

“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 Supplemental Letter”	the supplemental letter dated 15th June, 2004 entered into between the Company and Mr. Louie
“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
“New Bye-Laws”	the new bye-laws of the Company proposed to be adopted by the Shareholders at the SGM
“Po Cheong”	Po Cheong International Enterprises Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Asia Alliance
“Po Cheong Group”	Po Cheong and its subsidiary
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to approve, amongst others, the LTC Purchase Transactions, the KPF Purchase Transactions, the reduction in the authorised share capital of the Company and the adoption of the New Bye-laws
“SGX-ST”	Singapore Exchange Securities Trading Limited

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司*

(incorporated in Bermuda with limited liability)

Executive Directors:

Koon Wing Yee

(President and Chief Executive Officer)

Tsang Yiu Kai

(Vice President)

Lui Yuk Chu

Independent Non-executive Directors:

Wong Sui Wah, Michael

Pun Hei, Hectar

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

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

Unit A, 7th Floor

Hong Kong Spinners Building
Phase 6

481-483 Castle Peak Road

Cheung Sha Wan

Kowloon

Hong Kong

29th June, 2004

*To the Shareholders, and for information only,
the optionholders*

Dear Sirs or Madam,

**ONGOING CONNECTED TRANSACTIONS
REDUCTION IN AUTHORISED SHARE CAPITAL
ADOPTION OF NEW BYE-LAWS**

INTRODUCTION

In an announcement dated 20th May, 2004, the Directors announced that 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. The Company has also announced on 10th June, 2004 and 24th June, 2004 that it has applied to the Stock Exchange for waivers from strict compliance with Rule 14A.49 of the Listing Rules and the despatch date of this circular was extended to no later than 29th June, 2004.

** For identification only*

LETTER FROM THE BOARD

Further, the Company announced on 23rd June, 2004 that upon completion of the disposal of all the issued shares of Po Cheong by Easyknit International Trading Company to Best Ability, Po Cheong has ceased to be a subsidiary of the Company, with effect from 17th May, 2004. Prior to the Disposal, the LTC Sale Transactions and the KPF Sale Transactions were carried out solely by the Po Cheong Group and will still be carried out by the Po Cheong Group after the Disposal. Details of the Disposal were set out in the joint announcement issued by Asia Alliance and the Company dated 5th March, 2004. Between the period after completion of the Disposal which took place on 17th May, 2004 and before the Company entered into the LTC Supplemental Letter and the KPF Supplemental Letter on 15th June, 2004, the LTC Sale Transactions and the KPF Sale Transactions were carried out by the Po Cheong Group, which had then become part of the Asia Alliance Group. As a result of completion of the Disposal on 17th May, 2004, the Company entered into the LTC Supplemental Letter and the KPF Supplemental Letter on 15th June, 2004 pursuant to which the parties have agreed to vary the LTC Agreement and the KPF Agreement respectively such that the LTC Sale Transactions and the KPF Sale Transactions will not be proceeded with by the Group (and instead will only be proceeded with by the Asia Alliance Group). Accordingly, Independent Shareholders' approval will be sought at the SGM in respect of the LTC Purchase Transactions and the KPF Purchase Transactions only subject to the LTC Cap and the KPF Cap respectively.

The Independent Board Committee has been formed to make a recommendation to the Independent Shareholders in respect of the resolutions to approve the LTC Purchase Transactions and the KPF Purchase Transactions to be subject to the LTC Cap and the KPF Cap respectively. Access Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the LTC Purchase Transactions and the KPF Purchase Transactions and the LTC Cap and the KPF Cap are fair and reasonable so far as the Shareholders are concerned.

The Company is an investment company and, through its subsidiaries and its associated company, Asia Alliance, is principally 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.

In addition, 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 Company also proposes to adopt the New Bye-Laws in place of the existing bye-laws of the Company.

The purpose of this circular is to provide the Shareholders with further details of the LTC Purchase Transactions and the KPF Purchase Transactions, to set out the letter of recommendation from the Independent Board Committee, the letter from Access Capital to the Independent Board Committee and the Independent Shareholders and the notice of the SGM to approve the LTC Purchase Transactions, the KPF Purchase Transactions, the reduction of the Company's authorised share capital and the adoption of the New Bye-Laws.

LETTER FROM THE BOARD

LTC PURCHASE TRANSACTIONS

On 10th May, 2004, the Company and Mr. Louie entered into the LTC Agreement (which was supplemented by the LTC Supplemental Letter) pursuant to which, amongst other things, the Group has agreed to purchase garments, apparel, clothing and textiles from 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 purchase orders which the Group has agreed to place with the LTC Companies for those three years. Each purchase order for garments by the Group will be made subject to orders placed by the Group with the LTC Companies from time to time, at prices agreed between them on a case-by-case basis by reference to the prevailing rates charged by the LTC Companies to independent customers which will be on normal commercial terms.

In addition, under the terms of the LTC Agreement, the Company has agreed to prepay the LTC Companies for the garments to be manufactured for the Group. Such prepayment is 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 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 Purchase Transactions was as follows:

	2002	2003	2004
	(audited)	(audited)	(based on management accounts)
For the year ended 31st March	HK\$'000	HK\$'000	HK\$'000
Purchase of garments from the LTC Companies	189,397	205,381	182,890

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 and (ii) the estimated growth rate of the purchases by the Group from the LTC Companies of approximately 10 per cent. per annum, the Group expects that the maximum value of the LTC Purchase Transactions for each of the three financial years ended 31st March, 2007 respectively are likely to be as follows. This is an estimate only and not a forecast:

For the year ended 31st March	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Purchase of garments from the LTC Companies	193,000	212,300	233,530

LETTER FROM THE BOARD

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 Purchase Transactions constitute “non-exempt continuing connected transactions” of the Company under the Listing Rules, they are 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 Purchase Transactions which will be subject to the following conditions:

- (1) the LTC Purchase 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 no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than the terms available from independent third parties; 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; and
- (3) compliance by the Company with all other relevant requirements under the Listing Rules regarding the LTC Purchase Transactions.

KPF PURCHASE TRANSACTIONS

On 10th May, 2004, the Company and Ms. Koon entered into the KPF Agreement (which was supplemented by the KPF Supplemental Letter) pursuant to which, amongst other things, the Group has agreed to purchase garments, apparel, clothing and textiles from 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 purchase orders which the Group has agreed to place with the KPF Companies for those three years. Each purchase order for garments by the Group will be made subject to orders placed by the Group with the KPF Companies from time to time, at prices agreed between them on a case-by-case basis by reference to the prevailing rates charged by the KPF Companies to independent customers which will be on normal commercial terms.

In addition, under the terms of the KPF Agreement, the Company has agreed to prepay the KPF Companies for the garments to be manufactured for the Group. Such prepayment is 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 granted by the Group to the KPF Companies are normal commercial terms which are common in the garment industry in Hong Kong.

LETTER FROM THE BOARD

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 Purchase Transactions was as follows:

For the year ended 31st March	2002 (audited) <i>HK\$'000</i>	2003 (audited) <i>HK\$'000</i>	2004 (based on management accounts) <i>HK\$'000</i>
Purchase of garments from the KPF Companies	40,314	50,236	62,959

Pursuant to the terms of the KPF Agreement and based on the historical transaction value between the Group and the KPF Companies for the three years ended 31st March, 2004, the Group expects that the maximum value of the KPF Purchase Transactions for each of the three financial years ended 31st March, 2007 respectively are likely to be as follows. This is an estimate only and not a forecast:

For the year ended 31st March	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Purchase of garments from the KPF Companies	63,000	63,000	63,000

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 Purchase Transactions will constitute “non-exempt continuing connected transactions” of the Company under the Listing Rules, they are 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 Purchase Transactions which will be subject to the following conditions:

- (1) the KPF Purchase 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 no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than the terms available from independent third parties; 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;

LETTER FROM THE BOARD

- (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; and
- (3) compliance by the Company with all other relevant requirements under the Listing Rules regarding the KPF Purchase Transactions.

REASONS AND BENEFITS FOR THE LTC PURCHASE TRANSACTIONS AND THE KPF PURCHASE TRANSACTIONS

The LTC Purchase Transactions and the KPF Purchase 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. The Directors consider that the LTC Purchase Transactions and the KPF Purchase 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 a reduction in its authorised 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 circular, 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\$132,367,338.60 divided into 1,323,673,386 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.

ADOPTION OF NEW BYE-LAWS

The Board considered that since the existing bye-laws were adopted in 1995, a number of provisions therein should be amended to take into account various changes in applicable laws, regulations, the Listing Rules and market practices. As such amendments are substantial, it is proposed that a new set of bye-laws which complies with all current applicable laws and the Stock Exchange requirements be adopted instead of further amending the existing bye-laws on a piecemeal basis, which may lead to confusion and complication in the future. It is therefore proposed that Shareholders' approval be sought by way of special resolution at the SGM to adopt the New Bye-laws in substitution for and to the exclusion of the existing bye-laws. A summary of certain important provisions of the New Bye-laws is set out in Appendix I to this circular.

LETTER FROM THE BOARD

SGM

The notice of the SGM is set out on pages 32 to 34 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not Shareholders are able to attend the SGM in person, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the SGM or any adjournment thereof in person, if they so wish.

Magical Profits will abstain from voting at the SGM to approve the LTC Purchase Transactions and the KPF Purchase Transaction. The votes of the Independent Shareholders at the SGM will be taken by poll. Save and except for the shareholding of Magical Profits in the Company, details of which are set out in page 29 in Appendix II of this circular, 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.

RECOMMENDATION

The Independent Board Committee has been formed to make a recommendation to the Independent Shareholders in respect of the resolutions to approve the LTC Purchase Transactions and the KPF Purchase Transactions to be subject to the LTC Cap and the KPF Cap respectively. Access Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the LTC Purchase Transactions and the KPF Purchase Transactions and the LTC Cap and the KPF Cap are fair and reasonable so far as the Shareholders are concerned. Your attention is drawn to the letter of advice from the Independent Board Committee and the letter from Access Capital containing its advice to the Independent Board Committee and the Independent Shareholders set out on pages 12 to 13 and pages 14 to 23 of this circular respectively.

The Board believes that the reduction in the Company's authorised share capital is in the best interest of the Company and the Shareholders and that the adoption of the New Bye-Laws is essential to comply with changes to applicable laws, regulations and the Listing Rules. Accordingly, the Directors recommend that the Shareholders vote in favour of the resolutions to be proposed at the SGM to approve such matters.

ADDITIONAL INFORMATION

Your attention is also drawn to the notice of the SGM and the summary of the important provisions of the New Bye-Laws and the general information set out in the appendices to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the full text of a letter from the Independent Board Committee prepared for inclusion in this circular.



EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司*

(incorporated in Bermuda with limited liability)

29th June, 2004

To the Independent Shareholders

Dear Sir and Madam,

ONGOING CONNECTED TRANSACTIONS

We refer to the circular dated 29th June, 2004 of Easyknit International Holdings Limited (“Circular”), of which this letter forms part. Terms defined in the Circular bear the same meanings herein, unless the context otherwise requires.

We have been appointed to constitute the Independent Board Committee to make a recommendation to the Independent Shareholders in relation to the LTC Purchase Transactions and the KPF Purchase Transactions subject to the LTC Cap and the KPF Cap respectively.

We draw your attention to the letter from the Board, as set out on pages 5 to 11 of the Circular, which provides details of the LTC Purchase Transactions and the KPF Purchase Transactions. Your attention is also drawn to the letter from Access Capital to the Independent Board Committee and the Independent Shareholders which contains their advices in respect of the LTC Purchase Transactions and the KPF Purchase Transactions, as set out on pages 14 to 23 of the Circular.

* For identification only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the LTC Agreement and the KPF Agreement, the principal factors and reasons considered by, and the recommendations of, Access Capital as stated in their aforementioned letter of advice, the Independent Board Committee concurs with the views of Access Capital that the terms of the LTC Agreement, the KPF Agreement and the transactions contemplated thereunder as well as the respective cap amounts are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the terms of the LTC Agreement, the KPF Agreement and the transactions contemplated thereunder as well as the respective cap amounts.

Yours faithfully,

For and on behalf of

Independent Board Committee

Wong Sui Wah, Michael Pun Hei, Hectar

Independent Non-executive Directors

LETTER FROM ACCESS CAPITAL

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for incorporation in this Circular.



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

29th June, 2004

To: *The Independent Board Committee and
the Independent Shareholders of Easyknit International Holdings Limited*

Dear Sirs,

ONGOING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with regard to the terms of the LTC Purchase Transactions and the KPF Purchase Transactions (together defined as the “Ongoing Connected Transactions”) contemplated under the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the respective caps (i.e. the LTC Cap and the KPF Cap) in relation to these Ongoing Connected Transactions. Details of the Ongoing Connected Transactions are contained in the “Letter from the Board” set out on pages 5 to 11 of a circular to the Shareholders dated 29th June, 2004 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined elsewhere in the Circular, unless the context otherwise requires.

Reference is also made to an announcement dated 23rd June, 2004 issued by the Company clarifying that upon completion of the disposal (the “Disposal”) of all the issued shares of Po Cheong International Enterprises Limited (“Po Cheong”, previously an indirect wholly-owned subsidiary of the Company) by Easyknit International Trading Company Limited (a wholly-owned subsidiary of the Company) to Best Ability Limited (a wholly-owned subsidiary of Asia Alliance Holdings Limited (“Asia Alliance”, an associated company of the Company and a listed company on the Stock Exchange), Po Cheong has ceased to be a subsidiary of the Company with effect from 17th May, 2004. Prior to the Disposal, the LTC Sale Transactions and the KPF Sale Transactions were carried out solely by Po Cheong and its subsidiary (the “Po Cheong Group”) and will still be carried out by the Po

LETTER FROM ACCESS CAPITAL

Cheong Group after the Disposal. Details of the Disposal were set out in the joint announcement issued by Asia Alliance and the Company dated 5th March, 2004. Between the period after completion of the Disposal which took place on 17th May, 2004 and before the Company entered into a supplemental letter with each of Mr. Louie and Ms. Koon on 15th June, 2004, the LTC Sale Transactions and the KPF Sale Transactions were carried out by the Po Cheong Group, which had then become part of Asia Alliance and its subsidiaries (the “Asia Alliance Group”). As a result of completion of the Disposal on 17th May, 2004, the Company entered into a supplemental letter with each of Mr. Louie and Ms. Koon on 15th June, 2004 pursuant to which the parties have agreed to vary the LTC Agreement and the KPF Agreement respectively such that the LTC Sale Transactions and the KPF Sale Transactions will not be proceeded with by the Group (and instead will only be proceeded with by the Asia Alliance Group). Accordingly, Independent Shareholders’ approval will be sought at the SGM in respect of the LTC Purchase Transactions and the KPF Purchase Transactions only subject to the LTC Cap and the KPF Cap respectively.

Given that (i) 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; and (ii) Ms. Koon is the sister of Mr. Koon Wing Yee, a Director and is a connected person of the Company under the Listing Rules, the respective transactions contemplated under the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004) will constitute non-exempt continuing connected transactions of the Company under the Listing Rules. The Ongoing Connected Transactions are subject to reporting, announcement and Independent Shareholders’ approval at the SGM.

As stated in the “Letter from the Board”, the Company will seek the approval of the Independent Shareholders at the SGM of the Ongoing Connected Transactions and the respective caps in relation to the Ongoing Connected Transactions. Magical Profits will abstain from voting on the resolutions to approve the LTC Purchase Transactions and the KPF Purchase Transactions at the SGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Board is currently comprised of (i) three executive directors, namely Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu and (ii) two independent non-executive directors, namely Mr. Wong Sui Wah, Michael and Mr. Pun Hei, Hectar.

An Independent Board Committee comprising Mr. Wong Sui Wah, Michael and Mr. Pun Hei, Hectar, has been established to consider the terms of the Ongoing Connected Transactions and the respective caps related thereto.

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Ongoing Connected Transactions and the respective caps related thereto are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion in relation to the Ongoing Connected Transactions and the respective caps for the Independent Board Committee’s consideration in making their recommendation to the Independent Shareholders.

III. BASES OF THE OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company through its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company through its senior management staff and/or the Directors (and for which the Directors are solely responsible) were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company through its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company through its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background to and reasons for the Ongoing Connected Transactions

1.1 Background to the Ongoing Connected Transactions

The Company is an investment company and, through its subsidiaries and associated company, Asia Alliance, 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.

LETTER FROM ACCESS CAPITAL

1.1.1 LTC Purchase Transactions

LTC Companies have been suppliers of cotton-based knitted garments of the Group since 1993. 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 Purchase Transactions was as follows:

	For the year ended 31st March,		
	2002	2003	2004
	(audited)	(audited)	on management
	<i>HK\$'000</i>	<i>HK\$'000</i>	accounts
			<i>HK\$'000</i>
Purchase of garments from the LTC Companies	189,397	205,381	182,890
Total purchase of garments of the Group	557,798	508,141	481,274
Purchase of garments from the LTC Companies as percentage of the total purchase of the Group	34.0%	40.4%	38.0%

It is noted that purchases from LTC Companies have increased by approximately 8.4% from the year ended 31st March, 2002 to the year ended 31st March, 2003. According to the Company, production capacity of the LTC Companies has also increased to handle the Company's increasing amount of orders. Despite the occurrence of severe acute respiratory syndrome in the last quarter of the financial year ended 31st March, 2003 and throughout the first half of the financial year ended 31st March, 2004, the Group managed to maintain its total purchases of approximately HK\$508.1 million and HK\$481.3 million respectively. Although there is a fall in the total purchases made by the Group, the Group maintained approximately 40% of its total annual purchases from the LTC Companies as shown in the table above.

LETTER FROM ACCESS CAPITAL

1.1.2 KPF Purchase Transactions

KPF Companies have been suppliers of the Group since 1994. 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 Purchase Transactions was as follows:

	For the year ended 31st March,		
	2002	2003	2004
	(audited)	(audited)	(estimate based on management accounts)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchase of garments from the KPF Companies	40,314	50,236	62,959
Total purchase of garments of the Group	557,798	508,141	481,274
Purchase of garments from the KPF Companies as percentage of the total purchase of the Group	7.2%	9.9%	13.1%

Although there was a fall in the overall purchases made by the Group as mentioned above, it is noted that purchases from KPF Companies increased steadily at a rate of approximately 25% on a year-on-year basis from the year ended 31st March, 2002 to the year ended 31st March, 2004. According to the Directors, production capacity of the KPF Companies has also increased to handle the Company's increasing amount of orders. However, the management of KPF Companies has informed the Group that they do not expect to expand their production capacity further to cope with the increasing demand from the Group from 2004 onwards due to their own constraints.

As mentioned above, Mr. Louie and Ms. Koon are connected or deemed connected persons of the Company under the amended Listing Rules (effective from 31st March, 2004) and transactions contemplated under the LTC Purchase Transactions and the KPF Purchase Transactions therefore constitute Ongoing Connected Transactions. They are therefore subject to reporting, announcement and Independent Shareholders' approval at the SGM.

1.2 Reasons for the Ongoing Connected Transactions

According to the Directors, the LTC Purchase Transactions and the KPF Purchase Transactions will be subject to Independent Shareholders' approval and continue to be conducted in the ordinary and usual course of business of the Group and in accordance with the terms of the relevant agreements (as supplemented by the relevant supplemental letters dated 15th June, 2004), which were negotiated on an arm's length basis. The Directors consider that the LTC Purchase Transactions and the KPF Purchase Transactions are in the interests of the Company and the Shareholders and that their bases are fair and reasonable so far as the Company and the Shareholders are concerned.

In view of the nature of the business of the Group, customers of the Group are very demanding. In addition, the Group has to compete with many other garment suppliers/manufacturers around the world in terms of quality, value for money and efficient and on-time delivery. Due to the highly competitive nature of the garment industry in Hong Kong, it is very important for the Group to maintain a long-term and steady relationship with reliable garment suppliers (such as the LTC Companies and the KPF Companies).

Following the accession by the People's Republic of China (the "PRC") to the World Trade Organisation and the announced elimination of the quota system for garment exports from the PRC to the United States of America and countries in Europe by 2005, the Directors are of the 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.

Having taken into account the background and reasons stated above, we are of the view that it is justifiable for the Group to continue to deal with its long-term and reliable suppliers (such as the LTC Companies and the KPF Companies), in particular, it is synergistically beneficial to the Group so as to maintain its competitiveness among many other garment suppliers/manufacturers around the world in terms of quality, value for money and efficient and on-time delivery. In addition, the entering into of the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004) helps to formalise and secure the supply relationship for the next three years. Shareholders should note that the terms of the transactions contemplated under the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004) have been and will continue to be conducted on normal commercial terms or on terms no less favourable than terms available from independent third parties as described in the paragraph headed "2.1 Terms of the Ongoing Connected Transactions" below. Accordingly, we believe that it is reasonable for the Group to enter into the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the transactions contemplated thereunder with the LTC Companies and the KPF Companies respectively.

2. Terms of the Ongoing Connected Transactions and the commercial justification for determining the caps

2.1 Terms of the Ongoing Connected Transactions

According to the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004), each purchase order for garments by the Company will be made subject to orders placed by the Group with the LTC Companies/the KPF Companies 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 other customers.

LETTER FROM ACCESS CAPITAL

In addition, under the terms of the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004), the Company has agreed to prepay the LTC Companies/the KPF Companies for the garments to be manufactured for the Group. Such prepayment are interest free and repayable by the LTC Companies/the KPF Companies on demand. This maximum amount will not exceed 50% of the value of the relevant order. The Directors have confirmed that such prepayments are normal practice in the garment industry in Hong Kong and similar arrangements (i.e. interest free and repayable on demand) are provided by the Group to other suppliers (who are independent third parties not connected with the directors, chief executive and substantial shareholders of the Company and its subsidiaries and/or their respective associates).

We have reviewed on a random basis some purchase orders issued by the Group to the LTC Companies/the KPF Companies and other, independent third party, customers for the three years ended 31st March, 2004 as well as the period between 1st April, 2004 to the Latest Practicable Date and noted that the purchase price of the garments offered by the LTC Companies/the KPF Companies was no less favourable than terms offered by other third parties to the Group. We have also discussed with the Directors the purchase prices of all garments sourced by the Group from the LTC Companies and the KPF Companies with different specifications and obtained confirmation that they are no less favourable than those prices offered by third parties who supply garments on comparable terms.

Taking into account the abovementioned background and confirmation from the Directors, we concur with the view of the Directors that the purchases to be made under the Ongoing Connected Transactions are normal commercial arrangements between the Group and the LTC Companies/the KPF Companies, the terms of which are reasonable and in the interests of the Shareholders and will continue to be conducted on terms no less favourable than terms to be offered to the Group by independent third parties.

2.2 For the respective caps of the Ongoing Connected Transactions

According to the Company, the respective caps of the Ongoing Connected Transactions were determined with reference to the following factors:

- the historical purchases made between the Group and the LTC Companies/the KPF Companies for the three years ended 31st March, 2004;
- discussions between with the Group and its customers with regard to their estimated growth in demand of garments in order to enable the Group to ascertain the estimated demand for the Group's garments in the coming years;

LETTER FROM ACCESS CAPITAL

- the historical production capacity of the LTC Companies and the KPF Companies and the expected increase in capacity of the LTC Companies and the KPF Companies; and
- assessment of the market trend, the overall demand and the expectation of the growth for garments by the customers of the Group.

2.2.1 LTC Cap

Pursuant to the terms of the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and based on (i) the historical transaction value between the Group and the LTC Companies for the three years ended 31st March, 2004, and (ii) the estimated growth rate of the purchases by the Group from the LTC Companies of approximately 10% per annum, the Group expects that the maximum value of the LTC Purchase Transactions for each of the three financial years ending 31st March, 2007 respectively are likely to be as follows, but with the caveat that these are estimates only and not forecasts. Actual values may be materially different:

	For the year ending 31st March,		
	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Estimate)</i>	<i>(Estimate)</i>	<i>(Estimate)</i>
Purchase of garments from the LTC Companies	193,000	212,300	233,530

As noted in the paragraph headed “1.2 Reasons for the Ongoing Connected Transactions” above, purchases from LTC Companies represented an approximately 8.4% increase over those in the year ended 31st March, 2002 to 31st March, 2003. Although there was a fall in the amount of purchases from the LTC Companies for the year ended 31st March, 2004, we have taken into account (i) the accession by the PRC to the World Trade Organisation and the announced elimination of the quota system for garments exporting from the PRC to the United States of America and countries in Europe by 2005, and (ii) the increasing trend that more customers from the United States of America and Europe will source from Asian suppliers (such as the Group) and, in turn, the Group will have to increase its purchases from its suppliers, and concluded that the estimated growth rate of the purchases by the Group from the LTC Companies of approximately 10% per annum is reasonable.

We have been advised by the Directors that the LTC Companies plan to expand their production capacity to cater for more orders from the Group. Accordingly, we believe that there will be sufficient capacity available by the LTC Companies to fulfill the Group’s future purchases and to enable the Group to fulfill its own customers’ future orders.

LETTER FROM ACCESS CAPITAL

2.2.2 KPF Cap

Pursuant to the terms of the KPF Agreement and based on the historical transaction value between the Group and the KPF Companies for the three years ended 31st March, 2004, the Group expects that the maximum value of the KPF Purchase Transactions for each of the three years ending 31st March, 2007 respectively are likely to be as follows but with the caveat that this is an estimate only and not a forecast. Actual values may be materially different:

	For the year ending 31st March,		
	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Estimate)</i>	<i>(Estimate)</i>	<i>(Estimate)</i>
Purchase of garments from the KPF Companies	63,000	63,000	63,000

As noted in the paragraph headed “1.2 Reasons for the Ongoing Connected Transactions” above, purchases from the KPF Companies have increased steadily at a rate of approximately 25% on a year-on-year basis from the year ended 31st March, 2002 to 31st March, 2004. However, the management of the KPF Companies has informed the Group that they do not expect to expand their production capacity further to cope with the increasing demand from the Group from 2004 onwards due to their own constraints. On this basis, we are of the view that the maximum value of purchase of garments from the KPF Companies be maintained at a level of HK\$63 million is reasonable.

Having considered the abovementioned factors and based on our discussion with the Directors, we are of the view that the respective caps of the Ongoing Connected Transactions for each of the periods mentioned above are justifiable. Accordingly, we consider that the basis of determining the respective caps for the Ongoing Connected Transactions is fair and reasonable so far as the Independent Shareholders are concerned.

V. RECOMMENDATION

Having considered the above principal factors, being (i) the background to, and reasons for, the Ongoing Connected Transactions; and (ii) the terms of the Ongoing Connected Transactions and the commercial justification for determining the respective caps of the Ongoing Connected Transactions, we are of the view that the terms of the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004), the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the Ongoing Connected Transactions contemplated thereunder as well as the respective caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company.

LETTER FROM ACCESS CAPITAL

Furthermore, in relation to compliance with the conditions set out in the Listing Rules, the Directors will request auditors of the Company to review the Ongoing Connected Transactions and confirm that the terms of the Ongoing Connected Transactions have received the approval of the Board, have been entered into in accordance with the terms of the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004) as well as the pricing policy of the Group, and that the value of the Ongoing Connected Transactions has not exceeded the respective caps. In addition, in order to comply with this condition, the Directors have confirmed to us that the auditors of the Company will have sufficient access to the books and records of the Company for the purpose of the auditors' review of the Ongoing Connected Transactions. On this basis, we believe that the aforesaid condition and right of access have been given in the interests of the Independent Shareholders and provide additional safeguards to the Company.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to approve the LTC Agreement (as supplemented by a supplemental letter dated 15th June, 2004), the KPF Agreement (as supplemented by a supplemental letter dated 15th June, 2004) and the Ongoing Connected Transactions contemplated thereunder, as well as the respective caps in relation to the Ongoing Connected Transactions.

Yours faithfully,
For and on behalf of
ACCESS CAPITAL LIMITED
Jeanny Leung
Managing Director

The following is a summary of the major changes to the existing bye-laws (the paragraph numbers of bye-laws set out below, unless otherwise stated, refer to the New Bye-laws):

1. New definition of “Clearing House”

“Clearing House” shall mean a recognised clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) or a clearing house or authorised shares depository recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction.

2. New provisions in relation to votes of Shareholders

Bye-law 76A provides that where the Listing Rules requires any Shareholder to abstain from or restricted to voting only for or only against any particular resolution, his vote cast in contravention of such requirement or restriction shall not be counted.

3. Provisions in relation to votes of Directors

Bye-law 98 has amended the relevant provisions of the existing bye-laws in relation to Directors’ voting on Board meetings where they have a material interest in the relevant resolutions:

- (a) Bye-law 98(H) provides that subject to the exceptions under Bye-law 98H(i) to (v), a Director may not vote or be counted in the quorum at board meeting in relation to any contract or arrangement or proposal where he or any of his Associate(s) (as defined in the Listing Rules) has/have a material interest;
- (b) Bye-law 98(I) provides that if a Director (other than in the capacity of a bare or custodian trustee) and his Associate(s) is the holder of or beneficially interested in 5% or more of any class of the shares in a company, such company will be deemed be a company in which such Director together with any of his Associate(s) owns 5% or more of any class of the issued shares or of the voting rights of such company; and
- (c) Bye-law 98(J) provides that if a company mentioned in Bye-law 98(I) is materially interested in a transaction, that Director is also deemed materially interested in such transaction.

4. Provisions in relation to notice to be given when person proposed for election

Bye-law 103 has amended the notice period to be lodged with the Company to nominate a candidate to be elected as a Director at the general meeting. It provides that the period for depositing such notice will commence on (and include) the day after the dispatch of the notice of the meeting appointed for such election and end on (and exclude) the date that is seven (7) days before the date appointed for such meeting.

5. New provisions in relation to financial statements to Shareholders

Bye-law 162(C) provides that the Company may send summarised financial statements to Shareholder who have, in accordance with the Statutes and any applicable rules prescribed by the Stock Exchange, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by an auditor's report and notice informing the Shareholder how to notify the Company that he elects to receive the full financial statements. The summarised financial statements, notice and auditor's report must be sent not less than 21 days before the general meeting to those Shareholders so elected to receive the summarised financial statements.

Bye-law 162(D) provides that subject to Section 88 of the Companies Act, the Company shall send the full financial statements to a Shareholder within seven (7) days of receipt of the Shareholder's election to receive the full financial statements.

6. New provisions in relation to electronic means

Bye-law 167A provides that subject to exceptions, any notice to be given to or by any person pursuant to the bye-laws of the Company shall be in writing or, contained in an electronic communication. A notice or document may be served or delivered by the Company to any Shareholder by electronic means to such address as may from time to time be authorised by the Shareholder concerned or by publishing it on a computer network and notifying the Shareholder concerned, in such manner as he may from time to time authorise, that it has been so published.

Bye-law 167B provides that the Board may from time to time specify the form and manner in which a notice may be given to the Company by electronic means. Any notice may be given to the Company by electronic means only if it is given in accordance with the requirements specified by the Board.

Bye-law 169 provides that any notice or document, if sent by electronic means (including through any relevant system), shall be deemed to have been given on the day following that on which the electronic communication was sent by or on behalf of the Company.

1. RESPONSIBILITY STATEMENT

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

2. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

A poll may be demanded at any general meeting:

- (i) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (ii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

If a poll is demanded as aforesaid, it shall (apart from the election of a chairman of a meeting of Shareholders or on any question of adjournment shall be taken at the meeting and without adjournment) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was demanded, as the chairman presiding at the meeting of Shareholders directs. No notice need be given of a poll not taken immediately. The result of a poll shall be deemed to be the resolution of the meeting at which the poll is demanded. The demand for a poll may be withdrawn, with the consent of the chairman of the meeting, at any time before the close of the meeting or the taking of the poll, whichever is earlier.

On a poll a Shareholder entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

3. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Interests in the Company

Interests in Shares

Name of Director	Nature of interest	Number of Shares	Approximate percentage of interest
Koon Wing Yee (<i>Note</i>)	Interest of spouse	486,324,678	36.74%
Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	486,324,678	36.74%
Tsang Yiu Kai	Beneficial owner	149,993	0.01%

Note: These Shares were registered in the name of and were beneficially owned by Magical Profits, which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 486,324,678 Shares by virtue of the SFO.

Interests in associated corporations

Asia Alliance

Name of Director	Nature of interest	Number of shares	Approximate percentage of interest
Koon Wing Yee (<i>Note</i>)	Interest of spouse	128,259,324	35.93%
Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	128,259,324	35.93%

Note: These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of the Company. Magical Profits was interested in approximately 36.74% of the issued share capital of the Company and it was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 128,259,324 shares by virtue of the SFO.

Wellmake Investments Limited (“Wellmake”) (Note)

Name of Director	Nature of interest	Number of non-voting deferred share	Approximate percentage of interest
Koon Wing Yee	Beneficial owner	1	50%
Lui Yuk Chu	Beneficial owner	1	50%

Note: All the issued ordinary shares which carry the voting rights in the share capital of Wellmake were held by the Company.

Save as disclosed herein and as at the Latest Practicable Date, none of the Director or chief executive of the Company had any interest in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Save as publicly disclosed, none of the Directors is interested in any assets which have been since 31st March, 2003 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save for the LTC Agreement and the KPF Agreement, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contracts with any member of the Group, save for contracts which will expire or are terminable by the employer within one year without payment of compensation, other than statutory compensation.

As at the Latest Practicable Date, none of the Directors nor any of his/her respective associates has any competing interest as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling Shareholder.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following are those persons (the “Substantial Shareholders”) (other than the Directors or the chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any options in respect of such shares are set out below:

Interests in Shares

Name of substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of interest
Magical Profits (<i>Note</i>)	Beneficial owner	486,324,678	36.74%
Accumulate More Profits Limited (<i>Note</i>)	Interest of controlled corporation	486,324,678	36.74%
Newcourt Trustees Limited (<i>Note</i>)	Trustee	486,324,678	36.74%

Note: These Shares were registered in the name of and were beneficially owned by Magical Profits, which was wholly-owned subsidiary by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members).

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

5. MATERIAL ADVERSE CHANGE

The Directors are of the opinion that, save as disclosed in the announcements issued by the Company dated 14th April, 2003, 23rd July, 2003, 18th December, 2003, 15th January, 2004, 5th March, 2004, 26th March, 2004, 2nd April, 2004, 8th April, 2004, 21st April, 2004, 11th May, 2004, 20th May, 2004, 23rd June, 2004 and 24th June, 2004, there has not been any material adverse change in the financial or trading position of the Group since 31st March, 2003, being the date to which the latest published audited consolidated accounts of the Group were made up.

6. LITIGATION

On 19th November, 2001, Mark Profit Development Limited (a wholly-owned subsidiary of the Company), commenced an action against Mr. Lee Chun Fat and Lee Mark & Associates Architects & Surveyors Limited for a claim for professional negligence relating to the redevelopment project in Fa Yuen Street. The amount of the claim is approximately HK\$103,000,000 plus interest.

On 16th August, 2002, Easyknit Properties Holdings Limited, Mark Profit Development Limited and Grand Profit Development Limited (all of which are wholly-owned subsidiaries of the Company) commenced an action against Mr. Chau Chok Ming, a former employee of the Group, for the alleged unauthorised acceptance of commission and/or personal advantages from his services to the above mentioned plaintiffs. The aggregate amount of the claims is approximately HK\$105,000,000 plus interest.

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

7. QUALIFICATION OF EXPERTS

Access Capital, being a corporation deemed licensed under the SFO and engaged in types 1, 4, 6 and 9 regulated activities, has given its advice which is contained in this circular.

As at the Latest Practicable Date:

- (i) Access Capital did not have any direct or indirect interests in any assets which have since 31st March, 2003 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group.
- (ii) Access Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. CONSENT

Access Capital has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business in Hong Kong of the Company at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong up to and including 13th July, 2004:

- (a) the letter from Access Capital, the text of which is set out on pages 14 to 23 in this circular;
- (b) the written consent from Access Capital referred to in paragraph 8 of this appendix;
- (c) the LTC Agreement and the KPF Agreement;
- (d) the New Bye-Laws; and
- (e) a copy of the Companies Act.



EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司*

(incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Easyknit International Holdings Limited (“Company”) will be held on 28th July, 2004 at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. **“THAT** the agreement dated 10th May, 2004 entered into between the Company and Mr. Louie Tsz Chung (as supplemented by a supplemental letter dated 15th June, 2004) and the transactions contemplated thereunder subject to the LTC Cap (as defined in the circular of the Company dated 29th June, 2004) be and are hereby approved, confirmed and ratified and that the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the LTC Purchase Transactions (as defined in the circular of the Company dated 29th June, 2004).”
2. **“THAT** the agreement dated 10th May, 2004 entered into between the Company and Ms. Koon Po Fun (as supplemented by a supplemental letter dated 15th June, 2004) and the transactions contemplated thereunder subject to the KPF Cap (as defined in the circular of the Company dated 29th June, 2004) be and are hereby approved, confirmed and ratified and that the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the KPF Purchase Transactions (as defined in the circular of the Company dated 29th June, 2004).”
3. **“THAT** the authorised share capital of the Company be and is hereby reduced from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued shares of HK\$0.10 each in the share capital of the Company.”

NOTICE OF THE SGM

SPECIAL RESOLUTION

4. “**THAT** the new bye-laws of the Company marked “A” produced to this meeting and for the purposes of identification signed by the Chairman, be and are hereby approved and adopted as the new bye-laws of the Company in substitution for and to the exclusion of the existing bye-laws of the Company and that the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the foregoing.”

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

Hong Kong, 29th June, 2004.

Head office and principal place of business in Hong Kong:

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

Notes:

1. Any member entitled to attend and vote at the meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member may appoint more than one proxy to attend the meeting. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company’s principal place of business in Hong Kong at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting (as the case may be) at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.
4. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

NOTICE OF THE SGM

5. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
6. A form of proxy for use at the SGM is enclosed herewith.
7. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Magical Profits Limited is required to abstain from voting in respect of the Ordinary Resolutions numbered 1 and 2 to be proposed at the meeting which shall be voted only by way of poll.

** For identification only*



EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司

(incorporated in Bermuda with limited liability)

FORM OF PROXY FOR USE AT THE SPECIAL GENERAL MEETING (OR AT ANY ADJOURNMENT THEREOF)

I/We (Note 1), _____
of _____
being the registered holder(s) of (Note 2) _____ ordinary share(s) of HK\$0.10 each in the capital of EASYKNIT INTERNATIONAL HOLDINGS LIMITED (the "Company") hereby appoint the Chairman of the special general meeting of the Company, or (Note 3) _____
of _____
as my/our proxy to attend and vote for me/us and on my/our behalf at the special general meeting of the Company (the "Meeting") to be held at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on 28th July, 2004 at 9:00 a.m. and at any adjournment thereof for the purpose of considering and, if thought fit, passing the resolutions as set out in the notice convening the Meeting as indicated below or if no such indication is given, as my/our proxy thinks fit and in respect of any other business that may properly come before the Meeting and/or at any adjournment thereof (Note 4):

Resolutions	For	Against
ORDINARY RESOLUTION NO.1		
ORDINARY RESOLUTION NO.2		
ORDINARY RESOLUTION NO.3		
SPECIAL RESOLUTION NO.4		

Dated this _____ day of _____, 2004

Signature: _____

Notes:

1. Full name(s) and address(es) must be inserted in BLOCK CAPITALS.
2. Please insert the number of shares registered in your name(s) to which the proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the shares of the Company registered in your name(s).
3. If any proxy other than the Chairman is preferred, please strike out "the Chairman of the special general meeting of the Company, or" and insert the name and address of the proxy desired in the space provided. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON(S) WHO SIGN(S) IT.
4. IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, TICK THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK THE BOX MARKED "AGAINST". Failure to tick either box will entitle your proxy to cast your vote or abstain at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the Meeting and/or at any adjournment thereof other than those referred to in the notice convening the Meeting.
5. Any member entitled to attend and vote at the Meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member may appoint more than one proxy to attend the Meeting. A proxy need not be a member of the Company.
6. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
7. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company's principal place of business in Hong Kong at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.
8. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
9. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
10. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Magical Profits Limited is required to abstain from voting in respect of the Ordinary Resolutions numbered 1 and 2 to be proposed at the Meeting which shall be voted only by way of poll.

*For identification only