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**THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

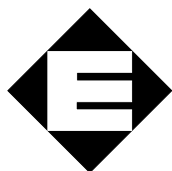
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**If you are in doubt** as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in Easyknit International Holdings Limited, you should at once hand this circular and the proxy form to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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**

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A letter from the board of directors of the Company is set out on pages 3 to 6 of this circular. The notice convening the special general meeting of the Company to be held at 9:30 a.m. on 23rd August 2004 is set out on pages 7 to 8 of this circular. Shareholders are advised to read the notice and to complete and return the proxy form for use at the special general meeting of the Company enclosed herewith in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting 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. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjournment thereof (as the case may be) should you so wish.

\* For identification purposes only

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## EXPECTED TIMETABLE

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### 2004

Latest time for lodging proxy forms for the SGM ..... 9:30 a.m. on 21st August 2004

SGM ..... on 23rd August 2004

Proposed Reductions become effective ..... immediately after the SGM on 23rd August 2004

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## DEFINITIONS

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

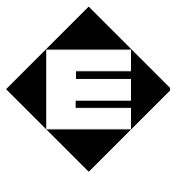
“Accumulated Losses”	means the audited accumulated losses of the Company as at 31st March 2004
“AGM”	means the annual general meeting of the Company to be held on 23rd August 2004 at 9:45 a.m. (or so soon thereafter as the SGM shall have been concluded or adjourned) at Chater Room III, Function Room Level, The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong
“Board”	means the board of directors of the Company or a duly authorized committee thereof for the time being
“Bye-laws”	means the bye-laws of the Company as adopted on 28th July 2004
“Capital Reserve Reduction”	means 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”	means 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
“Directors”	means the directors of the Company
“Effective Date”	the date on which the Share Premium Reduction and the Capital Reserve Reduction shall become effective, which is expected to be immediately after the SGM
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Outstanding Share Options”	means all outstanding share options of the Company convertible into 132,000,000 Shares at the exercise price of HK\$0.138 per Share
“Proposed Reductions”	the Share Premium Reduction and the Capital Reserve Reduction

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## DEFINITIONS

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“SGM”	means the special general meeting of the Company to be held on 23rd August 2004 at 9:30 a.m., at Chater Room III, Function Room Level, The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong before the AGM
“SGM Notice”	means the notice convening the SGM as set out on pages 7 to 8 of this circular
“SGX-ST”	means Singapore Exchange Securities Trading Limited
“Share(s)”	means shares of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	means holder(s) of Share(s)
“Share Premium Reduction”	means the proposed reduction of the entire share premium account of the Company referred to in the section headed “Proposed Reductions”
“Special Resolution”	means the proposed special resolution as referred to in the SGM Notice
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong



**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

*Registered Office:*

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Independent Non-executive Directors:*

Wong Sui Wah, Michael

Pun Hei, Hectar

*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

30th July 2004

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

Dear Sir or Madam,

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

**1. INTRODUCTION**

As mentioned in the announcement of the Company dated 26th July 2004, the Board proposes to put forward to the Shareholders proposals to reduce the entire amount standing to the credit of the share premium account and the capital reserve account of the Company.

The purpose of this circular is to provide you with information on the Proposed Reductions and to seek your approval of the Special Resolution relating to these matters at the SGM.

\* *For identification purposes only*

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## LETTER FROM THE BOARD

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### 2. PROPOSED REDUCTIONS

The Directors propose that the entire amounts standing to the credit of the share premium account and the capital reserve account of the Company be reduced pursuant to Section 46 of the Companies Act and bye-law 59(B) of the Bye-laws and part of the credit arising therefrom in the sum of HK\$1,785,508,000 will be used to set off against the full amount of the Accumulated Losses and the remaining balance of the credit arising from the Proposed Reductions in the range of HK\$227,555,000 up to HK\$280,940,000 (being the range of amounts remaining in balance or potentially remaining in balance assuming that there may be exercise in full of subscription rights attaching to all outstanding share options of the Company) will be transferred to the contributed surplus account of the Company. As at 31st March 2004, the amount standing to the credit of the share premium account, the capital reserve account and the Accumulated Losses amounted to HK\$1,117,131,000, HK\$895,932,000 and HK\$1,785,508,000, respectively. Assuming the exercise in full of the subscription rights attached to the Outstanding Share Options of the Company, the share premium account of the Company shall be not more than HK\$1,122,147,000 as at the Effective Date. If the Outstanding Share Options are exercised in full, the additional amount of share premium in the sum of HK\$5,016,000 will be transferred to the contributed surplus account of the Company. As a result of the Share Premium Reduction and the Capital Reserve Reduction, 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. The contributed surplus account is distributable under the Company's Bye-laws and the Companies Act, subject to due fulfillment of the solvency test requirements stipulated therein.

The Company's audited financial statements as at 31st March 2004 showed that the Company had accumulated losses of HK\$1,785,508,000. The Company would not be positioned to pay dividends on its Shares while there are accumulated losses outstanding. The Directors propose that, subject to the condition set out below, the entire amount standing to the credit of the share premium account and the capital reserve account of the Company be reduced and part of the credit arising therefrom be used to set off against the Accumulated Losses in full. Assuming the Proposed Reductions become effective and the Accumulated Losses are set off in full, the Company would have no Accumulated Losses as at the conclusion of the SGM and would be able to declare and pay dividends from its retained earnings available for distribution. As announced by the Company on 26th July 2004, subject to the Proposed Reductions becoming effective, the directors have recommended the payment of dividend of 0.5 HK cent per Share to be declared at the AGM.

#### 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 to be 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.

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## LETTER FROM THE BOARD

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It is expected that the Proposed Reductions will become effective on the date of passing the relevant resolution to approve the Proposed Reductions. The Directors anticipate that the Company will be able to fulfill the solvency test requirements arising under the Companies Act in order to effect the Proposed Reductions.

### **3. OPINIONS OF THE BERMUDA LAWYER AND THE AUDITORS OF THE COMPANY**

The Bermuda lawyer of the Company, Appleby Spurling Hunter, has confirmed that (i) the proposals for reductions of share premium account and capital reserve account and offsetting of accumulated losses; (ii) the transfer to the contributed surplus account; and (iii) any distribution of the contributed surplus account (subject to due fulfillment of the solvency test requirements stipulated in the Companies Act) are in order in accordance with the Company's Bye-laws and the Companies Act.

The auditors of the Company, Deloitte Touche Tohmatsu, have confirmed that they are not aware the accounting treatment in relation to the proposals for reductions of share premium account and capital reserve account and offsetting of accumulated losses and the transfer to the contributed surplus account is not in accordance with HKGAAP.

### **4. SPECIAL GENERAL MEETING**

Set out in this circular is the notice of the SGM at which a Special Resolution will be proposed to approve the Proposed Reductions and the set off against the Accumulated Losses.

A proxy form for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM in person, you are requested to complete and return the proxy form, 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 the holding of the SGM. Completion and return of the proxy form will not preclude you from attending and voting at the SGM if you so wish.

Pursuant to the Bye-laws, a poll may be demanded in relation to any resolution put to the vote of the SGM before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll:

- (a) by the chairman of the meeting; or
- (b) by at least three Shareholders present in person or by duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person or by duly authorised corporate 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



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## LETTER FROM THE BOARD

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- (d) by any Shareholder or Shareholders present in person or by duly authorised corporate 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 Shares conferring that right.

### 5. RECOMMENDATION

The Directors consider that the Proposed Reductions and the set off against the Accumulated Losses are in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend that all Shareholders should vote in favour of the Special Resolution as set out in the SGM Notice.

### 6. DIRECTORS' RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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 herein misleading.

Yours faithfully,

For and on behalf of the board of directors of

**Easyknit International Holdings Limited**

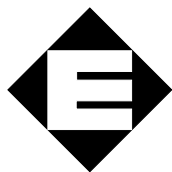
**Koon Wing Yee**

*President and Chief Executive Officer*

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## NOTICE OF SPECIAL GENERAL MEETING

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### 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 (the “Company”) will be held on 23rd August 2004 at 9:30 a.m. at Chater Room III, Function Room Level, The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as a special resolution of the Company:

#### SPECIAL RESOLUTION

1. (a) **“THAT** subject to compliance with section 46(2) of the Companies Act 1981 of Bermuda and with effect from the date of the passing of this resolution (the “Effective Date”), the entire amounts standing to the credit of the following accounts in the capital of the Company be reduced: (i) the share premium account in the range of HK\$1,117,131,000 up to HK\$1,122,147,000 (being the range of amounts attributable or potentially attributable to such account, assuming that there may be exercise in full of subscription rights attaching to all outstanding share options of the Company), and (ii) the capital reserve account of the Company in the amount of HK\$895,932,000 (the “Proposed Reductions”);
- (b) **THAT** the directors of the Company be and are hereby authorized to apply part of the credit arising from the aforesaid Proposed Reductions in the sum of HK\$1,785,508,000 to offset the accumulated losses of the Company as at 31st March 2004 (the “Offsetting of Losses”) and the remaining balance of the credit arising therefrom in the range of HK\$227,555,000 up to HK\$232,571,000 (being the range of amounts remaining in balance or potentially remaining in balance assuming that there may be exercise in full of subscription rights attaching to all outstanding share options of the Company) be transferred to the contributed surplus account of the Company (the “Contributed Surplus Credit”); and
- (c) **THAT** the directors of the Company be and are hereby authorized to do all such acts and things (including, without limitation to the generality of the foregoing, the execution of any additional document, instrument or agreement) as they may, in their absolute discretion, consider necessary, desirable or expedient to implement and/or to give effect to the Proposed Reductions, Offsetting of Losses and Contributed Surplus Credit.”

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

\* *For identification purposes only*

Hong Kong, 30th July 2004

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## NOTICE OF SPECIAL GENERAL MEETING

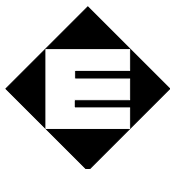
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*Head Office and Principal Place of Business in Hong Kong:*

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 authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer of attorney duly authorized.
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.
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.



# EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司\*

(Incorporated in Bermuda with limited liability)

## Form of proxy for Special General Meeting (or any adjournment thereof)

I/We <sup>(1)</sup> \_\_\_\_\_

of \_\_\_\_\_

being the registered holder(s) of <sup>(2)</sup> \_\_\_\_\_ ordinary share(s) of HK\$0.10 each in the capital of Easyknit International Holdings Limited (the "Company") HEREBY APPOINT <sup>(3)</sup> the Chairman of the special general meeting or \_\_\_\_\_

of \_\_\_\_\_

as my/our proxy to attend and vote for me/us and on my/our behalf at the said meeting of the Company to be held at Chater Room III, Function Room Level, The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong on Monday, 23 August, 2004 at 9:30 a.m. (or at any adjournment thereof) for the purposes of considering and, if thought fit, passing the resolution as set out in the notice convening the said meeting as hereunder indicated, and, if no such indication is given, as my/our proxy thinks fit and in respect of any other business that may properly come before and/or at any adjournment thereof.

	For <sup>(4)</sup>	Against <sup>(4)</sup>
SPECIAL RESOLUTION IN RELATION TO THE PROPOSED REDUCTIONS, OFFSETTING OF LOSSES AND CONTRIBUTED SURPLUS CREDIT		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2004

Signature(s)<sup>(5)</sup>: \_\_\_\_\_

### Notes:

1. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. If any proxy other than the Chairman of the meeting is preferred, please delete the words "the Chairman of the special general meeting 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 INITIALED BY THE PERSON WHO SIGNS 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 a 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 referred to in the notice convening the meeting.
5. A member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend the meeting. A proxy need not be a member of the Company.
6. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must either be executed under its common seal or under the hand of an officer or attorney duly authorised.
7. To be valid, this form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at 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 48 hours before the time appointed for holding the said meeting or adjourned meeting and in default this form of proxy shall not be treated as valid.
8. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally 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 the meeting personally or by proxy, then one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
9. Completion and return of this form of proxy will not preclude you from attending and voting in person at the meeting and in such event the form of proxy shall be deemed to be revoked.

\* For identification only