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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)

**MAJOR TRANSACTION
PROPOSED ACQUISITION OF PROPERTIES
AND
RESUMPTION OF TRADING**

On 6 June 2006, Easyknit Properties, a wholly owned subsidiary of the Company, and the Vendor entered into a sale and purchase agreement in relation to the acquisition of Happy Light, a company incorporated in the British Virgin Islands, for a consideration of HK\$53,680,000.

The Company proposed to acquire Happy Light so as to acquire interest in the Properties, which consist of 18 out of 20 units in a building on Victory Avenue, Kowloon. The Properties constitute 90% of the undivided shares of the Building (as contemplated under section 3(2)(b) of the Land (Compulsory Sale for Redevelopment) Ordinance). The Group intended to acquire the remaining units in the Building and it estimated that the Group will incur approximately HK\$170 million in total for the acquisition of the whole Building.

The Transaction constitutes a major transaction for the Company under the Listing Rules and is conditional upon the fulfillment of certain conditions precedent which include, among other things, the approval by the Shareholders of the Transaction at the SGM. A circular containing, among other things, details of the Transaction, together with a notice convening the SGM will be despatched to the Shareholders as soon as practicable.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 7 June 2006 and on the SGX-ST from 10:15 a.m. on the same date, pending issue of this announcement. Application has been made by the Company to the Stock Exchange and the SGX-ST for the resumption of trading in the Shares on the Stock Exchange and the SGX-ST from 9:30 a.m. and 9:00 a.m. respectively on 9 June 2006.

THE ACQUISITION AGREEMENT

Introduction

On 6 June 2006, Easyknit Properties entered into the Acquisition Agreement to acquire a 100% interest in Happy Light. Happy Light entered into the Formal Agreements for the acquisition of the Properties in May 2006. The details of the Acquisition Agreement and the Formal Agreements are set out below.

The Acquisition Agreement

Date: 6 June 2006

Parties:

Purchaser: Easyknit Properties

Vendor: Ng Chi Keung

To the best knowledge of the Directors after making all reasonable enquiries, Ng Chi Keung is an Independent Third Party.

Assets to be acquired

Pursuant to the Acquisition Agreement, Easyknit Properties will acquire, and the Vendor will sell, the Sale Shares and the Loan. The Sale Shares represent 100% of the issued share capital of Happy Light. Based on the management accounts of Happy Light, as at 31 May 2006, Happy Light owed the Vendor approximately HK\$11.6 million. Happy Light is principally engaged in property investment in Hong Kong.

Conditions precedent

The completion of the Acquisition Agreement is conditional upon fulfilment of , among other things, the following conditions:

- (i) the approval by the Shareholders of the Acquisition Agreement and the transactions contemplated thereby, including the exercise of the Option, in accordance with the Listing Rules;
- (ii) Easyknit Properties undertaking a “due diligence review” of Happy Light and being satisfied with such review in all respect; and
- (iii) no event being occurred which could reasonably be construed as being capable in preventing completion of any of the Formal Agreements taking place on 22 July 2006.

Completion

Subject to the fulfilment of the conditions precedent, completion of the Acquisition Agreement shall take place on 22 July 2006.

If the conditions precedent set in the sub-paragraph headed “Conditions precedent” above have not been satisfied (or, in case of the condition (ii) and (iii), have not been waived in writing by Easyknit Properties on or before 21 July 2006), the Acquisition Agreement shall cease and determine and Easyknit Properties shall have no obligations and liabilities under the Acquisition Agreement save for any prior breaches under the terms of the Acquisition Agreement. Easyknit Properties does not have any intention to waive any of the conditions precedent of the Acquisition Agreement.

Consideration

The Consideration pursuant to the Acquisition Agreement is HK\$53,680,000. The Consideration was fixed after arm's length negotiation by the parties to the Acquisition Agreement and having taken into account the discount of the aggregate purchase price for the Properties under the Formal Agreements over the estimated current market value of the property interest comprising 18 out of the total 20 units in the Building on redevelopment basis with vacant possession as valued by an independent valuer. Details of the calculation of the estimated current market value of the Properties are set out in the paragraph under the heading "Redevelopment of the Building" below. The total saleable floor area of the 18 units, as estimated by the Company based on the floor plans available to it, is approximately 13,467 sq.ft. while the total saleable floor area of the whole Building is approximately 14,948 sq.ft.. The Company will engage independent valuer to conduct valuation of the Properties to determine the current market value of the Properties not on redevelopment basis and will include such valuation report on the Properties in the circular to be despatched to the Shareholders.

Based on the unaudited management accounts of Happy Light, as at 31 May 2006, its net liabilities was HK\$6,466.24. The current assets was approximately HK\$11,762,000 which consisted of deposit paid under the Formal Agreements, consultancy fees paid to Rich Era and legal fees payable regarding the Formal Agreements. The current liabilities consisted of shareholders' loan of HK\$11,606,466.24.

The Consideration is payable by Easyknit Properties in the following manner (or such other means or manner as may be agreed between the parties):-

- (i) a deposit of HK\$5,000,000 ("Deposit") payable upon signing of the Acquisition Agreement;
- (ii) a sum of HK\$35,000,000 ("2nd Payment") payable upon Completion; and
- (iii) HK\$13,680,000 ("Retention Amount") payable in accordance with the terms below.

Deposit

Upon the signing of the Acquisition Agreement, the Deposit will be held by the Vendor's solicitor as stakeholder in part payment of the Consideration. If the conditions precedent are not satisfied or waived before Completion, or Easyknit Properties terminates the Acquisition Agreement, the Deposit will be refunded to Easyknit Properties with accrued interest. The Deposit and accrued interest shall be paid to the Vendor upon Completion.

Retention Amount

The Retention Amount will be dealt with in the following manner:-

- (i) if completion of all the Formal Agreements takes place on 22 July 2006 in accordance with the terms of the Formal Agreements, the Retention Amount will be paid to the Vendor on or before 26 July 2006; or

- (ii) if completion of one or more of the Formal Agreements does not take place on 22 July 2006 and Easyknit Properties exercises the Option, the Retention Amount will not be paid to the Vendor; or
- (iii) if completion of one or more of the Formal Agreements does not take place on 22 July 2006 and Easyknit Properties does not exercise the Option, the Retention Amount will be applied by towards payment of costs and expenses incurred in connection with taking advice and/or pursuing claims by Easyknit Properties under any of the Formal Agreements. Any remaining balance of the Retention Amount upon resolution of such claims will be paid to the Vendor if and when completion of all the Formal Agreements have taken place.

Source of funding

The Group will fund the acquisition of Happy Light by internal resources of the Group.

Option

Pursuant to the Acquisition Agreement, the Vendor granted to Easyknit Properties the right to require the Vendor to purchase from Easyknit Properties, all but not part only of the Sale Shares and the Loan if completion of any of the Formal Agreements does not take place on 22 July 2006 at a consideration equivalent to the aggregate of (i) HK\$40,000,000 and (ii) the total sum paid by Easyknit Properties and/or Happy Light and/or any of their respective associates under any of the Formal Agreements without interest . The Option may be exercised by Easyknit Properties by notice in writing to the Vendor any time on or before 26 July 2006 .

ACQUISITION OF THE PROPERTIES BY HAPPY LIGHT

The Formal Agreements

On 18 May 2006 and 22 May 2006, Happy Light entered into 7 formal sale and purchase agreements with 7 different Property Vendors for the acquisition of a total of 18 units in the Building situated at 1-3A Victory Avenue, Kowloon. The completion of the Formal Agreements is expected to be on 22 July 2006 and the total consideration for the acquisition of the Properties under the Formal Agreements was HK\$95.6 million.

Happy Light paid a total deposit of HK\$9.57 million (representing approximately 10% of the total consideration under all of the Formal Agreements) to the Property Vendors upon execution of the Formal Agreements. Upon completion of the Formal Agreements on 22 July 2006, Happy Light will have to pay the balance of the consideration in the sum of HK\$86.03 million to the Property Vendors. If the Acquisition Agreement completes on 22 July 2006, Happy Light will then become a wholly-owned subsidiary of the Group. Hence upon completion of the Formal Agreement, the Group will be responsible for paying the Property Vendors through Happy Light the balance of the consideration for the Properties of HK\$86.03 million.

The Consultancy Agreement

On 10 May 2006, Happy Light entered into a consultancy agreement with Rich Era in relation to the acquisition of all units in the Building. The consultancy agreement was subsequently amended by a supplemental agreement between Happy Light and Rich Era dated 22 May 2006.

Pursuant to the Consultancy Agreement, Rich Era was appointed as a consultant to Happy Light in connection to the acquisition of the Building and Happy Light paid Rich Era a consultancy fee of HK\$2,030,000 on 23 May 2006. Upon completion of the Formal Agreements, Happy Light will have to pay Rich Era a consultancy fee of HK\$12,134,000 and the Group will be responsible for such payment if the Acquisition Agreement completes on 22 July 2006.

Under the terms of the Consultancy Agreement, Happy Light will also have to pay Rich Era HK\$6,156,000 upon completion of the purchase of the remaining two units in the Building which are not subject to the Formal Agreements (“Remaining Units”). To the best knowledge of the Directors after making all reasonable enquiries, the owners of the Remaining Units are Independent Third Parties.

Source of funding

The Group will pay the balance of the consideration for acquisition of the Properties and the fees payable to Rich Era by internal resources of the Group.

REASONS FOR AND BENEFITS OF THE TRANSACTION

Redevelopment of the Building

The Properties represent 90% of the undivided shares of the plot of land on which the Building is situated (as contemplated under section 3(2)(b) of the Land (Compulsory Sale for Redevelopment) Ordinance (Cap. 545 the Laws of Hong Kong) (the “Ordinance”). The Properties are subject to 17 existing tenancy agreements at the time of the completion of the Formal Agreements and save for 5 tenancy agreements, all the tenancies will expire within 12 months from the date of the Acquisition Agreement. The remaining tenancies will expire within 18 months from the date of the Acquisition Agreement.

The Building is located at the prime commercial and residential location near Ho Man Tin and Mongkok, Kowloon. The Group intended to acquire the Remaining Units so as to have the ownership over the whole Building for re-development. Based on the market value of the Remaining Units, the Directors estimated that it would cost approximately HK\$6 million to acquire each of the Remaining Units. Taking into account the Consideration, the balance of the consideration payable to the Property Vendors under the Formal Agreements and the fees payable to Rich Era, it estimated that the Group will incur approximately HK\$170 million in total for the acquisition for the whole Building. Based on the valuation by independent valuers, the current market value of the 100% interest of the Building on the basis of redevelopment with vacant possession is HK\$210 million as at 1 June 2006.

Hence, in view of the redevelopment potential of the Building, the Group proposed to acquire Happy Light which has entered into the Formal Agreements to acquire the Properties. The Properties constitute 90% of the undivided shares of the Building (as contemplated under section 3(2)(b) of the Ordinance). The Directors noted that pursuant to the Ordinance, the owners of 90% or more of the undivided shares of a building may request for compulsory sale

of the remaining shares in that building for re-development purpose. Hence the Directors are optimistic about the prospects of acquiring the whole Building should the completion of the Acquisition Agreement proceed. The Company will issue an announcement to inform the Shareholders when the purchase of the Remaining Units is completed.

The Directors are of the view that the Transaction is in the interest of the Group and is on normal commercial terms, which are fair and reasonable and in the interest of the Shareholders as a whole.

GENERAL

The Company and its subsidiaries are principally engaged in the sourcing and export of cotton-based knitted garments for women, children and infants, and property investment.

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The Transaction constitutes a major transaction for the Company under the Listing Rules, therefore it is subject to the Shareholders' approval under Chapter 14 of the Listing Rules. A circular containing, among other things, details of the Transaction and a notice convening the SGM of the Company will be despatched to the Shareholders as soon as practicable.

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

DEFINITIONS

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

“Acquisition Agreement”	the agreement dated 6 June 2006 entered into between Easyknit Properties and the Vendor for the sale and purchase of the Sale Shares and the Loan
“associates”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Building”	the building situated in Kowloon Inland Lot No. 1344 (Nos. 1 and 1A Victory Avenue, Kowloon, Hong Kong) and Kowloon Inland Lot No. 1343 (Nos. 3 and 3A Victory Avenue, Kowloon, Hong Kong)

“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
“Completion”	the date fixed for completion of the Acquisition Agreement, which is expected to be on 22 July 2006
“Consideration”	the consideration payable for the Sale Shares and the Loan of HK\$53,680,000
“Consultancy Agreement”	the consultancy agreement dated 10 May 2006 entered into by Happy Light and Rich Era, which was subsequently amended by the supplemental agreement dated 22 May 2006 entered into by Happy Light and Rich Era
“Director(s)”	director(s) of the Company
“Easyknit Properties”	Easyknit Properties Holdings Limited, a company incorporated in British Virgin Islands and a wholly owned subsidiary of the Company
“Formal Agreements”	the 7 formal sale and purchase agreements entered into between Happy Light and the respective Property Vendor(s) in relation to the sale of the Properties
“Group”	the Company and its subsidiaries
“Happy Light”	Happy Light Investments Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Ng Chi Keung
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	a third party independent of the Company and of connected persons (as defined in the Listing Rules) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	all sums owed by Happy Light to the Vendor at Completion, whether or not then due for payment

“Option”	the option granted by the Vendor to Easyknit Properties to request the Vendor to purchase the Sale Shares and the Loan from Easyknit Properties after the Completion, under certain circumstances as set out in this announcement
“Properties”	collectively, G/F, 2/F, 3/F, 4/F, 5/F and the roof of 1 Victory Avenue, Kowloon; 1/F to 3/F and the roof of 1A Victory Avenue, Kowloon, 3 and 3A Victory Avenue, Kowloon
“Property Vendors”	the respective vendor(s) of each of the Formal Agreements, each of them are Independent Third Parties
“Rich Era”	Rich Era Development Limited which is an Independent Third Party
“SGM”	the special general meeting of the Company to be convened to approve, amongst other things, the Acquisition Agreement and the Transaction
“SGX-ST”	Singapore Exchange Securities Trading Limited
“Sale Shares”	the entire share capital of Happy Light in issue at Completion
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the proposed acquisition of the whole Building through the acquisition of the Sale Shares and the Loan by Easyknit Properties pursuant to the Acquisition Agreement, and the proposed acquisition of the Remaining Units by the Group
“Vendor”	Ng Chi Keung, an individual who is an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“%”

percentage or per centum

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

Hong Kong, 8 June 2006

** for identification only*