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If you have sold or transferred all your shares in Easyknit International Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker 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)

DISCLOSEABLE TRANSACTION

* *For identification only*

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DEFINITIONS

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

“associates”	the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Capital Estate”	Capital Estate Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed and traded on the main board of the Stock Exchange
“Company”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of Sale Shares by Mark Profit
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	20 October 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mark Profit”	Mark Profit Development Limited, a wholly-owned subsidiary of the Company
“Rights Issue”	the issue by way of rights of three Rights Shares for every Share held at a price of HK\$0.35 per Rights Share, details of which are set out in the Company’s prospectus dated 17 October 2006
“Rights Share(s)”	the 595,653,021 new Share(s) under the Rights Issue
“Sale Shares”	166,430,500 shares in Capital Estate, representing approximately 9.83% of the total issued shares of Capital Estate as at 9 October 2006, and as the context requires, refers to the shares of Capital Estate which have become the Sale Shares after subdivision and/or consolidation of shares of Capital Estate

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

LETTER FROM THE BOARD



EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1218)

Executive Directors:

Tse Wing Chiu, Ricky

(President and Chief Executive Officer)

Lui Yuk Chu

(Vice President)

Registered Office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

Independent Non-Executive Directors:

Wong Sui Wah, Michael

Tsui Chun Kong

Jong Koon Sang

*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

27 October 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

On 11 October 2006, the Board announced that on 9 October 2006, the Group disposed of the Sale Shares in the market. The Disposal constitutes a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules. This circular is to provide with you the information in relation to the Disposal and other information in accordance with the Listing Rules.

** For identification only*

LETTER FROM THE BOARD

THE DISPOSAL

On 9 October 2006, Mark Profit, a wholly-owned subsidiary of the Company, disposed of the Sale Shares in Capital Estate in the market at an average consideration of HK\$0.112 per Sale Share, i.e. approximately HK\$18,640,000 in total.

The settlement of the transaction was completed in cash on 11 October 2006. The net proceeds of the Disposal of approximately HK\$18,573,000 (without taking into account legal costs and other indirect costs) will be used to expand the Group's property portfolio as and when opportunities arise and the balance, if any, as general working capital purposes.

REASONS AND BENEFITS OF THE DISPOSAL

The Sale Shares were acquired by the Group in September and October 2005 with a view to participating in the local property market through strategic investment in the listed equities of another company which was engaged in property-related investment activities in Hong Kong. Nevertheless, since the second quarter of 2006, the Company observed that the views of Capital Estate as to the local property market have not always aligned with those of the Group. In addition, in May 2006, Capital Estate made a placement of warrants which has a potential dilution effect on the Group's shareholding in Capital Estate; and in June 2006, Capital Estate made a placement of shares which diluted the Group's shareholding in Capital Estate from approximately 12.56% to approximately 10.48%. As the trading price of Capital Estate has undergone a 10 month-long downward trend and the Directors consider that it is for the commercial benefit of the Company and the Shareholders as a whole to (1) limit the investment loss due to potential further shareholding dilution and further reduction of share price; and (2) realise the relevant investment and strengthen the Group's cash position for future development, the Directors decided to dispose of the Sale Shares as disclosed in this circular.

The Directors, including the independent non-executive Directors, consider that the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT CAPITAL ESTATE AND THE SALE SHARES

Capital Estate and its subsidiaries are principally engaged in property rental, financial investment, property development, property sales, provision of estate agency services and investment.

The net losses (before and after taxation and extraordinary items) attributable to the Sale Shares for the financial year ended 31 July 2004 were approximately HK\$283,000 and HK\$281,000 respectively.

The net profits (before and after taxation and extraordinary items) attributable to the Sale Shares for the financial year ended 31 July 2005 were approximately HK\$624,000 and HK\$580,000 respectively.

INFORMATION ABOUT THE GROUP

The Group is principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women and property investment.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE DISPOSAL ON THE GROUP

The Group acquired the Sale Shares at a cost of approximately HK\$33,286,000. The carrying value of the Sale Shares as at 31 March 2006 was approximately HK\$8,255,000. The difference in value of approximately HK\$25,031,000 had been recognised as a loss directly in a reserve account as stated in the Group's audited accounts for the financial year ended 31 March 2006. The Group will record a loss of approximately HK\$14,713,000 from the Disposal for the financial year ended 31 March 2007, subject to the annual audit. Such loss was derived from the difference between the amount of net proceeds of the Disposal of approximately HK\$18,573,000 (without taking into account legal costs and other indirect costs) and the carrying value of the Sale Shares (i.e. approximately HK\$8,255,000) and then minus the recognised loss in the reserve account of approximately HK\$25,031,000.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of
Easyknit International Holdings Limited
Tse Wing Chiu, Ricky
President and Chief Executive Officer

1. 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.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which 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 or short positions which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

A. Interests in the Company

1. *Interests in issued Shares*

Name of Director	Nature of interest	Number of issued ordinary Shares (long position)	Approximate percentage of interest
Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	72,948,701	36.74%

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

2. *Interests in unissued Shares*

Name of Director	Nature of interest	Number of unissued ordinary Shares (long position)	Approximate percentage of interest
Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	218,846,103	36.74%

Note: These are the Rights Shares which Magical Profits Limited has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Company and was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse).

B. Interests in associated corporations

1. *Easyknit Enterprises Holdings Limited*

Name of Director	Nature of interest	Number of ordinary shares (long position)	Approximate percentage of interest
Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	1,410,852,520	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 Limited 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 Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse).

2. *Wellmake Investments Limited (“Wellmake”) (Note a)*

Name of Director	Nature of interest	Number of non-voting deferred shares (long position)	Approximate percentage of interest
Lui Yuk Chu	(<i>Note b</i>)	2	100%

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

Note b: One non-voting deferred share was held by Ms. Lui Yuk Chu as beneficial owner and the other one was held by her spouse, Mr. Koon Wing Yee.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (“**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 of the Company 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 meetings of any other member of the Group, or had any options in respect of such capital are set out below:

A. Interests in issued Shares

Name of Substantial Shareholder	Nature of interest	Number of issued ordinary Shares (long position)	Approximate percentage of interest
Koon Wing Yee (<i>Note a</i>)	Interest of spouse	72,948,701	36.74%
Magical Profits Limited (<i>Notes a & b</i>)	Beneficial owner	72,948,701	36.74%
Accumulate More Profits Limited (<i>Notes a & b</i>)	Interest of controlled corporation	72,948,701	36.74%
Trustcorp Limited (<i>Notes a & c</i>)	Trustee	72,948,701	36.74%
Newcorp Ltd. (<i>Note c</i>)	Interest of controlled corporation	72,948,701	36.74%
Newcorp Holdings Limited (<i>Note c</i>)	Interest of controlled corporation	72,948,701	36.74%
David Henry Christopher Hill (<i>Note c</i>)	Interest of controlled corporation	72,948,701	36.74%
David William Roberts (<i>Note c</i>)	Interest of controlled corporation	72,948,701	36.74%
Rebecca Ann Hill (<i>Note c</i>)	Interest of spouse	72,948,701	36.74%

Notes:

- (a) The 72,948,701 Shares relate to the same block of Shares. These Shares were registered in the name of and were beneficially owned by Magical Profits Limited, which was a wholly-owned subsidiary of Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 72,948,701 Shares by virtue of the SFO.

- (b) Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited and Accumulate More Profits Limited.
- (c) Trustcorp Limited was a wholly-owned subsidiary of Newcorp Ltd.. Newcorp Ltd. was wholly-owned by Newcorp Holdings Limited. Each of Mr. David Henry Christopher Hill and Mr. David William Roberts was interested in 35% of the issued share capital of Newcorp Holdings Limited. Mrs. Rebecca Ann Hill, being the spouse of Mr. David Henry Christopher Hill, was deemed to be interested in the 72,948,701 Shares by virtue of the SFO.

B. Interests in unissued Shares

Name of Substantial Shareholder	Nature of interest (long position)	Number of unissued ordinary Shares
Koon Wing Yee (<i>Note a</i>)	Interest of spouse	218,846,103
Magical Profits Limited (<i>Notes a & b</i>)	Beneficial owner	218,846,103
Accumulate More Profits Limited (<i>Notes a & b</i>)	Interest of controlled corporation	218,846,103
Trustcorp Limited (<i>Notes a & c</i>)	Trustee	218,846,103
Newcorp Ltd. (<i>Note c</i>)	Interest of controlled corporation	218,846,103
Newcorp Holdings Limited (<i>Note c</i>)	Interest of controlled corporation	218,846,103
David Henry Christopher Hill (<i>Note c</i>)	Interest of controlled corporation	218,846,103
David William Roberts (<i>Note c</i>)	Interest of controlled corporation	218,846,103
Rebecca Ann Hill (<i>Note c</i>)	Interest of spouse	218,846,103
Get Nice Incorporated (<i>Note d</i>)	Interest of controlled corporation	376,806,918
Get Nice Holdings Limited (<i>Note d</i>)	Interest of controlled corporation	376,806,918
Honeylink Agents Limited (<i>Note d</i>)	Interest of controlled corporation	376,806,918
Cheer Union Securities Limited (<i>Note e</i>)	Beneficial owner	142,801,103

Notes:

- (a) These are the Rights Shares which Magical Profits Limited has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interest in 218,846,103 Rights Shares by virtue of the SFO.

- (b) Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited and Accumulate More Profits Limited.
- (c) Trustcorp Limited was a wholly-owned subsidiary of Newcorp Ltd.. Newcorp Ltd. was wholly-owned by Newcorp Holdings Limited. Each of Mr. David Henry Christopher Hill and Mr. David William Roberts was interested in 35% of the issued share capital of Newcorp Holdings Limited. Mrs. Rebecca Ann Hill, being the spouse of Mr. David Henry Christopher Hill, was deemed to be interested in the 218,846,103 Rights Shares by virtue of the SFO.
- (d) These are the Rights Shares which Get Nice Investment Limited (“**Underwriter**”) has underwritten in respect of the Rights Issue. The Underwriter was wholly-owned by Get Nice Incorporated which in turn was wholly-owned by Get Nice Holdings Limited. Get Nice Holdings Limited was owned as to approximately 32.15% by Honeylink Agents Limited. Mr. Hung Hon Man is the beneficial owner of Honeylink Agents Limited.
- (e) These are the Rights Shares which Cheer Union Securities Limited has sub-underwritten in respect of the Rights Issue from the Underwriter.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company 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 meetings of any other member of the Group or had any options in respect of such capital.

4. LITIGATION

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 was 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.

5. DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

6. SERVICE CONTRACTS

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 the contracts which will expire or are terminable by the Group within one year without payment of compensation, other than statutory compensation.

7. MISCELLANEOUS

- (a) The secretary of the Company is Chan Po Cheung, a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.
- (b) The qualified accountant of the Company is Chan Po Cheung, a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.
- (c) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda and the principal place of business of the Company in Hong Kong is at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.