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MAN YUE INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

## CONNECTED TRANSACTIONS AND ONGOING TRANSACTIONS

The Company announces that it increased its equity interest in Wuxi Heli from approximately 48.4% to approximately 71.12% on 28th August, 2001. As a result, Wuxi Heli became a subsidiary of the Company and the JV Partner became a connected person of the Company within the meaning defined in the Listing Rules, thereby triggering the Relevant Transactions to be constituted as Connected Transactions under the Listing Rules. The increase in equity interest in Wuxi Heli and the Relevant Transactions were disclosed in the 2001 Annual Report.

The Company has entered into the Relevant Transactions, which constituted Connected Transactions under the Listing Rules. The Relevant Transactions include three separate transactions: (i) a JV Partner Loan of US\$0.4 million and the additional Acquisition of 7.7% interest in Wuxi Heli, (ii) Corporate Guarantees granted to the JV Partner and the Associated Company with current outstanding amount of RMB2.1 million (HK\$2 million) (confirmations are being obtained from the relevant PRC banks in respect of the release of all Corporate Guarantees) and (iii) ongoing purchase of raw materials and payment of operating expenses between Wuxi Heli and the Associated Companies. The aggregate consideration of each type of connected transactions is less than the higher of HK\$10 million or 3% of the consolidated net tangible asset value of the Group as at 31st December 2000 and 30th June, 2001 respectively. The Connected Transactions hence fall within 14.25(1) of the Listing Rules and therefore, the Company is required to issue this press announcement.

Notwithstanding the inclusion of the details of the Relevant Transactions in the 2001 Interim Report and 2001 Annual Report, the Company has failed to make timely disclosure of the Connected Transactions by way of press announcement in accordance with the Listing Rules. Such non disclosure constitutes breaches of Rule 14.25(1) of the Listing Rules on the part of the Company. The breach was due to the oversight of the management of the Company in respect of statutory compliance arising from the change in status of Wuxi Heli from a jointly controlled entity to a subsidiary, particularly given that the Relevant Transactions have been in existence since July 1992. The Stock Exchange has indicated that it would reserve the right to take appropriate action against the Company and/or its Directors.

The Directors (including the independent non-executive Directors) consider that the Relevant Transactions were entered into on normal commercial terms and the terms and conditions of the Relevant Transactions are fair and reasonable so as far the shareholders of the Company are concerned. Details of the Relevant Transactions will be included in the next published annual report and accounts of the Company pursuant to Rule 14.25(1) (A) to (D) of the Listing Rules.

As Ongoing Transactions will continue to be carried out in the ordinary and normal course of business of the Group, on normal commercial terms that are fair and reasonable so far as the shareholders of the Company are concerned, the Directors (including the independent non-executive Directors) consider it impractical and unduly onerous to make disclosure of, or to obtain Independent Shareholders' approval for each of the Ongoing Transactions as and when it arises. Accordingly, the Company has applied to the Stock Exchange for a conditional waiver for the Ongoing Transactions for each of the financial year up to 31st December 2004.

## **BACKGROUND OF THE TRANSACTIONS**

Prior to 28th August 2001, the Company, through a wholly-owned subsidiary, Johnstone International Limited ("Johnstone"), held approximately 48.4% equity interest in Wuxi Heli, which was principally engaged in the manufacture and sale of electronic components. The remaining 51.6% equity interest in Wuxi Heli was held by the JV Partner.

As disclosed in 2001 Interim Report and the 2001 Annual Report, the Company increased its equity interest in Wuxi Heli from approximately 48.4% to approximately 71.12% on 28th August 2001, through an injection of fixed assets by Johnstone at a cost of HK\$19,963,000. Hence, Wuxi Heli became a subsidiary of the Company and thus the JV Partner became a connected person of the Company within the meaning defined in the Listing Rules, thereby triggering the various transactions (as described hereinafter), which took place after 28th August 2001, to be constituted as connected transactions under the Listing Rules. The connected transactions were disclosed in the 2001 Interim and Annual Reports, but not in press announcements.

The Board announces that the Company has entered into the Relevant Transactions.

## **RELEVANT TRANSACTIONS**

1. Loan of US\$0.4 million (about HK\$3.1 million) advanced by Wuxi Heli to the JV Partner (the "JV Partner Loan") and the additional Acquisition of 7.7% of equity interest in Wuxi Heli.

The JV Partner Loan was advanced by Wuxi Heli to the JV Partner in 1995. It was entered into on arm's length negotiation and on normal commercial terms. The balance is unsecured, bears interest at 0.54% per month with reference to the then prevailing market rates in China and has no fixed terms of repayment. The JV Partner Loan represented approximately 1.6% of the consolidated net tangible asset value ("NTA") of the Group (HK\$192.75 million) as at 31st December 2000.

The Board considered that these pre-existing arrangements were unnecessary and could be unwound. The Company therefore demanded immediate repayment of the JV Partner Loan by the JV Partner. On 14th June, 2002, an agreement was entered into between the Company and the JV Partner whereby the JV Partner agreed to fully repay the JV Partner Loan by transferring its 7.7% interest in Wuxi Heli to Johnstone, subject to the approval of the local government (the "Acquisition"). The amount of consideration of US\$0.4 million was based on the issued share capital of Wuxi Heli and represented 1.6% of the NTA. The approval from the relevant governmental authority in China for the Acquisition was received on 19th July, 2002 and the Acquisition was completed on 18th September 2002. As a result of the Acquisition, the Company's indirect equity interest in Wuxi Heli has increased from 71.12% to approximately 78.82% whereas the JV Partner's holding in Wuxi Heli has reduced from 28.88% to approximately 21.18%. The Acquisition itself constituted a connected transaction to the Company under Rule 14.25(1) of the Listing Rules.

The Company is optimistic on the future of Wuxi Heli and considers that the increase in equity interest in Wuxi Heli is in the best interest of the Company. This takes into account the fact that with China's accession to World Trade Organisation, an increasing number of foreign companies, particularly electronics and high technology companies, are making inroads to the domestic market by establishing their local production plants in PRC. These companies will be the potential clients which in turn spur demand for electronic components and parts produced by Wuxi Heli. In addition, Wuxi Heli is an industrial enterprise with domestic selling right. Wuxi Heli is in a competitive position against other domestic producers. Furthermore, the Group's average operating and manufacturing costs can also be further reduced with increasing production in Wuxi Heli.

## 2. Corporate guarantees

- (i) The JV Partner and the Associated Company have since 26th October 2001, on normal commercial terms, issued various corporate guarantees totaling RMB4.1 million (or approximately HK\$3.9 million) in favor of various banks for securing 100% of the bank loans obtained by Wuxi Heli from those banks for working capital. All the corporate guarantees have been expired since 27th October 2002 and the maximum outstanding was RMB5.1 million (HK\$4.8 million) for the period from 26th October 2001 to 27th October 2002.
- (ii) Wuxi Heli has reciprocally, on normal commercial terms, issued various corporate guarantees totaling RMB4.1 million (or approximately HK\$3.9 million) (the "Corporate Guarantees") in favor of a PRC bank for securing bank loans granted by the PRC bank to the JV Partner and the Associated Company since 20th November 2000.

As at the date of this press announcement, all Corporate Guarantees have been expired, except two Corporate Guarantee with total outstanding amount of RMB2.1 million (HK\$2 million), of which one Corporate Guarantee in an amount of RMB1 million (HK\$0.9 million) is scheduled to expire on 20th December 2002 and another Corporate Guarantee in an amount of RMB1.1 million (HK\$1 million) is to be expired on 20th February 2003 respectively. Confirmations are being obtained from the PRC banks in respect of the release of all Corporate Guarantees. The maximum outstanding amount is RMB5.25 million (HK\$4.95 million) for the period of 20th November 2000 – 20th February 2003. As the amounts recorded were less than the higher of either HK\$10 million or 3% of the Group's consolidated NTA as at 31st December 2000 and 31st December 2001 respectively, the Corporate Guarantees fall within Rule 14.25 (1) of the Listing Rules, would require, amongst others, disclosure by way of press announcement of the Company after Wuxi Heli became a non wholly-owned subsidiary of the Company. These Corporate Guarantees were carried out in the ordinary and usual course of business of Wuxi Heli and were in full compliance of the PRC laws. Adequate disclosure of such transactions was also subsequently made in the 2001 Annual Report.

## 3. Purchase of raw materials and payment of operating expenses

The associated companies of the JV Partner ("the Associated Companies") have been the major suppliers of raw materials to Wuxi Heli since its establishment in July 1992. Accordingly, Wuxi Heli had in the normal course of its business, prior to the Acquisition, paid for the purchase of raw materials from the Associated Companies on normal commercial terms. Further more, since Wuxi Heli is located in the premises owned by the Associated companies, it makes rental and utilities payments ("operating expenses") to the Associated Companies. The Company intends that Wuxi

Heli will continue to purchase raw materials from and pay rental and utilities payments to the Associated Companies (the “Ongoing Transactions”). Such Ongoing Transactions constituted connected transactions under the Listing Rules.

Wuxi Heli purchases raw materials primarily based on competitive pricing. For raw materials of the same quality, Wuxi Heli selects suppliers who offer cheaper prices. For raw materials offered at the same prices, Wuxi Heli will focus on such purchase criteria as product quality and delivery time. On the other hand, Wuxi Heli pays rental and utilities charges with reference to market rates in the neighbourhood.

The value of the Ongoing Transactions as defined between Wuxi Heli and the Associated Companies was approximately RMB4.7 million (HK\$4.5 million) from 28th August 2001 to 31st December 2001. (The values of similar Transactions were RMB6 million (HK\$5.6 million), RMB11.2 million (HK\$10.6 million) and RMB15.2 million (HK\$14.3 million) for the financial years of 1999, 2000 and 2001, representing approximately 3.4%, 5.5% and 7.1% of NTA as at the end of the respective financial year.) For the nine months ended 30th September 2002, the amount of Ongoing Transactions was RMB9.3 million (HK\$8.8 million). Details of the past purchases in the last financial year were disclosed in the 2001 Annual Report. The Company, with its management control over Wuxi Heli now, has been diversifying its source of raw material supply and reducing the purchase of raw materials from the Associated Companies since the middle of 2002 and will continue to do so over the next few years. It is therefore expected that the aggregate amount to be paid by Wuxi Heli to the Associated Companies for the Ongoing Transactions will not exceed the higher of HK\$10 million or 3% of the NTA as at the end of the prevailing financial year.

**Notwithstanding the inclusion of the details of the Relevant Transactions in the 2001 Interim Report and 2001 Annual Report, the Company has failed to make timely disclosure of the Connected Transactions in accordance with the Listing Rules. Such non disclosure constitutes breaches of Rule 14.25(1) of the Listing Rules on the part of the Company. The breach was due to the oversight of the management of the Company in respect of statutory compliance arising from the change in status of Wuxi Heli from a jointly controlled entity to a subsidiary, particularly given that the Relevant Transactions have been in existence since July 1992. The Stock Exchange has indicated that it would reserve the right to take appropriate action against the Company and/or its Directors.**

#### **CONNECTIONS BETWEEN THE PARTIES IN THE ONGOING TRANSACTIONS**

The Company is principally engaged in investment holding and that of its subsidiaries are trading of electrical products, manufacture and sale of electronic components and provision of management services. Wuxi Heli, an indirect non-wholly owned subsidiary of the Company, is principally engaged in the manufacture and sale of electronic components. The JV Partner is principally engaged in the manufacture of electronic components and equipment.

The JV Partner previously owned approximately 28.88% of the equity interest in Wuxi Heli and now owns approximately 21.18% in Wuxi Heli following the transfer of equity interest of 7.7% to the Company.

Audited net profits of Wuxi Heli were RMB2.6 million (HK\$2.4 million) and RMB2.3 million (HK\$2.2 million) for 31st December 2000 and 31st December 2001 respectively. The audited consolidated NTAs of Wuxi Heli were RMB25.9 million (HK\$24.4 million) and RMB40.9 million (HK\$38.6 million) as at 31st December 2000 and 31st December 2001 respectively.

## **REASON FOR THE ONGOING TRANSACTIONS**

By entering into purchase transactions with the Associated Companies, Wuxi Heli will benefit from having a reliable source of supply of raw materials from the Associated Companies. In the meantime, Wuxi Heli is able to maintain the relationship with its customers for sales of its products.

The Directors (including the independent non-executive directors) consider that the Ongoing Transactions are entered into in usual and ordinary course of business of the Group, and the terms of the Ongoing Transactions were negotiated on an arm's length basis and on normal commercial terms between the parties involved. The Directors (including the independent non-executive Directors) are of the view that as far as the shareholders of the Company are concerned, the Ongoing Transactions are fair and reasonable and in the best interests of the Company and its shareholders as a whole.

## **APPLICATION FOR A WAIVER FOR ONGOING TRANSACTIONS**

Such Ongoing Transactions have been, and will continue to be carried out on a regular basis in the ordinary and normal course of business of the Group, and on normal commercial terms that are fair and reasonable so far as the shareholders of the Company are concerned. As stated in section 3 of Relevant Transactions, the Company, with its management control over Wuxi Heli now, has been diversifying the supply of raw materials and thus reducing the purchase of raw materials from the Associated Companies of the JV Partner and will continue to do so.

For the nine months ended 30th September 2002, the amount of Ongoing Transactions was RMB9.3 million (HK\$8.8 million), of which purchase of raw materials amounted to RMB6.9 million (HK\$6.5 million) and payment of operating expenses was RMB2.4 million (HK\$2.3 million). The Company expects the amount of Ongoing Transactions to be RMB10.4 million (HK\$9.8 million) for the full year of 2002, which include RMB7.2 million (HK\$6.8 million) for the purchase of raw materials and RMB3.2 million (HK\$3.1 million) for the payment of operating expenses. The amount of RMB7.2 million (HK\$6.8 million) for the purchase of raw materials represents a substantial 41% decline over that of the whole year of 2001, which is attributable to the Company's determination to realise its drive for diversification.

The Company has taken a prudent and conservative approach to arrive at the estimates of the Ongoing Transactions for 2003-2004. The annual purchase of raw materials is estimated at RMB7.2 million (HK\$6.8 million) for these two years and the annual payment of operating expenses is estimated at RMB2.8 million (HK\$2.7 million) and RMB3.3 million (HK\$3.1 million) for 2003 and 2004 respectively. Therefore, the total amount of Ongoing Transactions is expected to be less than HK\$10 million for each of the following two years.

The Company has put in place a series of control measures for the Ongoing Transactions to ensure that the aggregate amount of Ongoing Transactions will not exceed the higher of either HK\$10 million or 3% of the Group's consolidated NTA in any given financial year. These control measures include the following:

- (a) A separate team primarily comprising a purchasing supervisor, an accountant for PRC operations and an administrative supervisor from the head office has been stationed in Wuxi Heli to keep track of management and operation;
- (b) Approval authority in respect of placing purchase orders has been transferred from Wuxi Heli's purchasing personnel to the head office;

- (c) A monthly report for the Transactions is required to submit to the head office; and
- (d) Regular management visit by the head office personnel to Wuxi Heli.

The Company has applied to the Stock Exchange for a waiver for each of the financial years up to 31st December 2004 from strict compliance from the relevant requirements of the Listing Rules in respect of the Ongoing Connected Transactions on the conditions that:

- (1) The Ongoing Transactions shall be:
  - (i) entered into by Wuxi Heli in the ordinary and usual course of its business;
  - (ii) conducted either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (b) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders are concerned; and
  - (iii) entered into either (a) in accordance with the terms of the agreements governing such Ongoing Transactions or (b) (where there are no such agreements) on terms no less favorable than those available to or from independent third parties.
- (2) The annual aggregate amount of the Ongoing Transactions shall not exceed the higher of either HK\$10 million or 3% of the consolidated NTA of the Group (the “Cap Amount”) in any given financial year.
- (3) The independent non-executive directors shall review the Ongoing Transactions annually and confirm in the Company’s annual report for each financial year concerned that these were conducted in the manner as stated in paragraphs (1) and (2) above.
- (4) The Company’s auditors shall review the Ongoing Transactions annually and confirm in a letter (the “Letter”) to the Board, stating that:
  - (i) the Ongoing Transactions have received approval of the Board;
  - (ii) the Ongoing Transactions have been entered into in accordance with the terms of the agreements governing the Ongoing Transactions or, if there are no such agreements, on terms no less favorable than those available to or from independent third parties; and
  - (iii) the Cap Amount has not been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the Board shall inform the Listing Division immediately.

- (5) Details of the Ongoing Transactions in each financial year shall be disclosed as required under Rule 14.25(1) (A) to (D) of the Listing Rules in the annual report of the Company for the financial year concerned together with a statement of the opinion of the independent non-executive Directors and the auditors of the Company referred to in paragraphs 3 and 4 above.

Should the annual amount of the Ongoing Transactions exceed the Cap Amount, the Company must comply with the provisions of Chapter 14 of the Listing Rules, and the transactions will be subject to approval of the shareholders of the Company at a special general meeting.

It is understood that if any terms of the arrangements referred to above are altered or if one of the conditions governing the Ongoing Transactions as mentioned above is altered or if the Company enters into agreements with any connected persons (within the meaning of the Listing Rules) other than those provided for under the Waiver in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

### **Terms Used in This Announcement**

“Acquisition”	An increase in equity interest in Wuxi Heli from 71.12% to 78.82% through a transfer of 7.7% equity interest in Wuxi Heli by the JV Partner in respect of the agreement entered into between the Group and the JV Partner on 14th June 2002
“associates”	the meaning ascribed to it under the Listing Rules
“The Associated Company”	Wuxi Gema Electronics Company Limited (無錫格碼電子有限公司)
“The Associated Companies”	the associated companies of the JV Partner
“Board”	the board of directors of the Company, including independent non-executive directors
“Company”	Man Yue International Holdings Limited, a company incorporated in Bermuda whose shares are listed on the Stock Exchange
“Corporate Guarantees”	corporate guarantees issued by Wuxi Heli in favor of PRC banks for securing bank loans granted by the PRC banks to the JV Partner and the Associated Company
“Directors”	the directors of the Company
“Group”	the Company, together with its subsidiaries and associates
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong SAR
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	those shareholders other than the controlling shareholder of the Company, its subsidiaries and its associates
“JV Partner”	Wu Ping Engineering and Electronics Group Co Ltd (Wuxi) (和平機械電子集團公司(無錫)) the PRC joint venture partner who owns 21.18% equity interests in Wuxi Heli

“JV Partner Loan”	the loan of US\$0.4 million advanced by Wuxi Heli to the JV Partner
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NTA”	consolidated net tangible asset value of the Group
“Ongoing Transactions”	the purchase of raw materials and payment of operating expenses between Wuxi Heli and the Associated Companies of the JV Partner
“Operating expenses”	rental and utilities payments
“PRC”	the People’s Republic of China
“Relevant Transactions”	JV Partner Loan and the additional Acquisition of 7.7% interest in Wuxi Heli, Corporate Guarantees and Ongoing Transactions
“RMB”	Renminbi, the lawful currency of the PRC (where applicable, was converted into HK\$ for the sole purpose of reference at a rate of RMB1.06 per HK\$1.00)
“Share(s)”	ordinary share(s) of par value HK\$1.00 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wuxi Heli”	Wuxi Heli Electronic Co., Ltd. (無錫和利電子有限公司), a Sino-foreign equity joint venture company established under the laws of the PRC

On behalf of the Board  
**Man Yue International Holdings Limited**  
**Chan Ho Sing**  
*Chairman*

Hong Kong, 13 November 2002

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