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## **YGM TRADING LIMITED**

*(Incorporated in Hong Kong with limited liability)*

### **CONNECTED TRANSACTIONS**

The Group has entered into sub-lease agreements with the Hang Ten Group relating to the sub-lease of store premises. The Company will apply to the Stock Exchange for the Waiver from strict compliance with Rule 14.25(1) for the Sub-Lease Arrangements.

Details of the Sub-Lease Arrangements should have been disclosed by way of a press notice and included in the annual reports of the Company when the annual amount of the payment under the Sub-Lease Arrangements exceeded the higher of HK\$1,000,000 or 0.03% of the net tangible assets of the Group. The Company acknowledged that it has breached Rule 14.25(1) of the Listing Rules with respect to the Sub-Lease Arrangements due to an inadvertent omission to make announcements at the relevant time. The Stock Exchange has indicated that it reserves its rights to take actions against the Company and the Directors as a result of such breach. The Company will include details of the Sub-Lease Arrangements in its next published annual report and accounts.

The Directors refer to (i) the joint announcement of the Company and Akai on 13th May, 2002 relating to a Restructuring Proposal for Akai; and (ii) the announcement of the Company on 2nd August, 2002 regarding the proposed spin-off of Hang Ten by the Company and listing of Hang Ten Shares on the Stock Exchange by way of introduction.

#### **BACKGROUND**

Prior to January 2002, the Group held an approximately 63.77% equity interest in ILC. ILC and its subsidiaries are principally engaged in the business of designing, marketing and retailing casual wears, apparels and accessories. Pursuant to a disposal agreement dated 9th November, 2001, the Company and other shareholders of ILC disposed of an approximately 63.77% and an approximately 33.24% equity interest in ILC to Hang Ten (BVI), respectively. Following the disposal, ILC became a 97.01% subsidiary of Hang Ten (BVI). Pursuant to a subscription agreement dated 9th November, 2001, the Company subscribed for an approximately 25% interest in Hang Ten (BVI). ILC ceased to be a subsidiary of the Company as from completion of the said disposal and subscription on 31st December, 2001. Details of the transaction were announced by the Company on 13th November, 2001.

The Restructuring Proposal involved (i) the establishment of Hang Ten which acquired the entire issued share capital of Hang Ten (BVI) including a 25% interest in Hang Ten (BVI) from the Company, and the Company becoming a shareholder of Hang Ten; (ii) the scheme of arrangement of Akai whereby Hang Ten issued Hang Ten Shares in exchange for shares of Akai held by its shareholders; (iii) the debt restructuring of Akai whereby Hang Ten issued Hang Ten Shares and paid HK\$12 million in cash to the liquidators of Akai for the benefit of its creditors; and (iv) the listing of Akai's shares being withdrawn and Hang Ten Shares being listed on the Stock Exchange.

The Restructuring Proposal was completed on 3rd January, 2003, listing of shares of Akai has been withdrawn from the Stock Exchange from 4:00 p.m. 8th January, 2003 and dealing in Hang Ten Shares commenced on 9th January, 2003.

Upon completion of the Restructuring Proposal, the Group's interest in Hang Ten has been diluted from 25% to 18.45%. Assuming all CPS issued to the Investors are converted and all Hang Ten Warrants are exercised by their existing holders, the Group's interest in Hang Ten will increase to 23.15%.

### **LEASING OF STORE PREMISES**

Michel Rene has entered into certain sub-lease agreements with the Hang Ten Group relating to the sub-leasing of store premises for retailing purpose. The existing sub-lease arrangements between Michel Rene and the Hang Ten Group have remaining terms of less than one year and both parties intend to renew the sub-lease arrangements after their respective expiry. The two store premises are located in No. 76, Nanjing East Road and No. 92, Section 1, Sungjiang Road, respectively, in Taipei, Taiwan. The floor area of the store premises in Nanjing East Road currently occupied by the Group is about 93 sq. m. The floor area of the store premises in Sungjiang Road currently occupied by Hang Ten is about 107 sq. m. The landlords of the store premises are independent third parties not connected with directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or an associate of any of them. The terms of the sub-lease agreements, which were determined based on various factors, including (i) the length of the original tenancy agreement; and (ii) the floor area to be occupied by each company, were arrived at by the Hang Ten Group and Michel Rene after arm's length negotiations. Michel Rene is a 68% owned subsidiary of the Company and the remaining 32% is held by the Kung Family. Mr. Kenneth Hung is a director of Michel Rene and the Kung Family has a substantial interest in Michel Rene. Accordingly, Mr. Kenneth Hung is considered to be a connected person of the Company. Due to the interest of the Kung Family in Hang Ten, Hang Ten also constitutes a connected party to the Company under the Listing Rules. Prior to January 2002, Mr. Kenneth Hung was a director of ILC and its several subsidiaries. Due to the then interest of the Kung Family in Michel Rene, ILC was a connected person to the Company under the Listing Rules prior to January 2002. Accordingly, the Sub-Lease Arrangements between Michel Rene and ILC and its subsidiaries prior to January 2002 constitute connected transactions of the Company.

For each of the three years ended 31st March, 2000, 2001 and 2002, the rentals received by Michel Rene from the companies now in the Hang Ten Group amounted to approximately US\$74,000, US\$41,000 and US\$30,000 representing approximately 0.08%, 0.06% and 0.03% of the net tangible assets of the Group for the three years ended 31st March, 2002, respectively. The rentals paid by Michel Rene to the companies now in the Hang Ten Group amounted to approximately US\$296,000, US\$289,000 and US\$233,000 representing approximately 0.32%, 0.41% and 0.25% of the net tangible assets of the Group for the three years ended 31st March, 2002, respectively. These rentals were arrived at after arms-length negotiations and with reference to actual rental payments pursuant to the original rental agreements and the size of premises subject to the Sub-Lease Arrangements. The Directors (including the independent non-executive Directors) are of the view that such sub-lease arrangements have been entered into on normal commercial terms and are fair and reasonable as far as the Shareholders, taken as a whole, are concerned. The total amounts paid and received by Michel Rene under the Sub-Lease Arrangements are expected to exceed HK\$1,000,000 and 0.03% of the net tangible assets of the Group, but will not exceed HK\$10,000,000 or 3% of the net tangible assets of the Group, on an annual basis. Accordingly, the Sub-Lease Arrangements will be disclosed in the Group's next published annual report and accounts in accordance with Rule 14.25(1)(A) to (D) of the Listing Rules. The Company will also apply to the Stock Exchange for the Waiver from strict compliance with Rule 14.25(1) for announcing the Sub-Lease Arrangements annually.

Details of the Sub-Lease Arrangements should have been disclosed by way of a press notice and included in the annual reports of the Company when the annual amount of payments under the Sub-Lease Arrangements exceeded the higher of HK\$1,000,000 or 0.03% of the net tangible assets of the Group. The Company acknowledged that it has breached Rule 14.25(1) of the Listing Rules with respect to such sub-lease arrangements due to an inadvertent omission to make announcements at the relevant time. The Directors (including independent non-executive Directors) consider the terms of the Sub-Lease Arrangements are fair and reasonable and in the best interests of the Shareholders and the inadvertent breach has no material adverse impact on the financial conditions of the Company. **The Stock Exchange has indicated that it reserves its rights to take actions against the Company and the Directors as a result of such breach. The Company will include details of the Sub-Lease Arrangements in its next published annual report and accounts.**

#### **WAIVER FOR ONGOING CONNECTED TRANSACTIONS**

The transactions under the Sub-Lease Arrangements between Michel Rene and the Hang Ten Group are expected to continue in future on a regular basis in the normal and ordinary course of business of the Group and will continue to constitute connected transactions for the Company under the Listing Rules for so long as Hang Ten remains a connected party to the Company. It would be impracticable and unduly burdensome for the Company to make annual press announcements in relation to the Sub-Lease Arrangements in order to comply strictly with the Listing Rules.

The Sub-Lease Arrangements constitute connected transactions of the Company under Rule 14.25(1) of the Listing Rules. Accordingly, the Company will apply to the Stock Exchange for the Waiver subject to the following conditions:

- (a) The Sub-Lease Arrangements will be conducted on the following basis:
  - (i) The Sub-Lease Arrangements will be maintained (aa) on normal commercial terms; or if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, the terms of which will be no less favourable to the Company than terms available to or from (as appropriate) independent third parties; (bb) on arm's length basis; and (cc) on terms that are fair and reasonable so far as the Shareholders are concerned.
  - (ii) The sum of the total amount received and paid by the Group under the Sub-Lease Arrangements will not exceed HK\$10,000,000 (the "Cap Amount").
  - (iii) The Sub-Lease Arrangements will be entered into in the ordinary and usual course of business of the Group.
- (b) The independent non-executive Directors will review annually the Sub-Lease Arrangements and confirm in the Company's annual report whether the Sub-Lease Arrangements between Hang Ten and the Group have been maintained in accordance with the relevant provisions of (a)(i) to (iii) as stated above.
- (c) The auditors of the Company will review annually the Sub-Lease Arrangements and confirm to the Board in writing (a copy of such confirmation has to be provided to the Stock Exchange) that (i) approval of the Board has been obtained with respect to the Sub-Lease Arrangements; (ii) the Sub-Lease Arrangements have been entered into in accordance with the terms of the sub-lease agreements governing such transactions; and (iii) Cap Amount has not been exceeded in the relevant financial year.

- (d) Relevant details of the Sub-Lease Arrangements will be disclosed in the Company's next and each successive annual report in accordance with Rule 14.25(1)(A) to (D) of the Listing Rules.

In the event that the sum of the total amount received and paid by the Group under the Sub-Lease Arrangements for any particular year should exceed the Cap Amount, the Waiver will no longer apply and the relevant requirements of the Listing Rules in respect of such transactions shall be complied with in full by the Company.

**DEFINITIONS:**

“Akai”	Akai Holdings Limited (in compulsory liquidation), a company incorporated in Bermuda with limited liability and listing of shares of Akai Holdings Limited has been withdrawn from the Stock Exchange on 8th January, 2003
“Company”	YGM Trading Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Stock Exchange
“CPS”	unlisted convertible preference shares to be issued by Hang Ten
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hang Ten”	Hang Ten Group Holdings Limited, a company incorporated in Bermuda with limited liability, the holding company of Hang Ten (BVI) and whose shares are listed on the Stock Exchange
“Hang Ten Group”	Hang Ten and its subsidiaries
“Hang Ten Share(s)”	ordinary shares of HK\$0.001 each in the existing share capital of Hang Ten
“Hang Ten Warrant(s)”	unlisted and transferrable warrant(s) exercisable at any time within 3 years from the closing date of the restructuring of Akai issued by Hang Ten entitling holders to subscribe for Hang Ten Shares at HK\$0.01 each (subject to adjustment)
“Hang Ten (BVI)”	Hang Ten International Holdings Limited, a company incorporated in the British Virgins Islands with limited liability and is wholly owned by Hang Ten
“Hang Ten (BVI) Group”	Hang Ten (BVI) and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China

“ILC”	ILC International Corporation, a company incorporated in the British Virgin Islands with limited liability and a 97.01% owned subsidiary of Hang Ten (BVI)
“Investors”	the Company, the Kung Family, Ms. Wang Li Wen and Ms. Kao Yu Chu who are interested in 18.45%, 53.87%, 0.74% and 0.74% interests in Hang Ten Shares, respectively, upon completion of the Restructuring Proposal as stated in the circular of Akai dated 31st October, 2002
“Kung Family”	Mr. Dennis Kung, Mr. Kenneth Hung, Ms. Peggy Hung, Ms. Pamela Hung and Asian Wide Services Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Michel Rene”	Michel Rene Enterprises Limited, a company incorporated in the British Virgin Islands, a 68% owned subsidiary of the Company
“Restructuring Proposal”	the proposal involving (i) the scheme of arrangement under section 99 of the Companies Act between Akai and its shareholders; (ii) the restructuring of the indebtedness and liabilities of Akai; and (iii) the acquisition of Hang Ten (BVI) by Hang Ten
“Share(s)”	ordinary share(s) of HK\$0.50 each in the capital of the Company
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-Lease Arrangements”	sub-lease arrangements between Michel Rene and the Hang Ten Group relating to the sub-leasing of store premises for retailing purpose
“Waiver”	waiver from strict compliance with the Listing Rules in respect of the disclosure requirements relating to the Sub-Lease Arrangements
“HK\$” and “cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong

By order of the Board  
**Chan Wing Sun, Samuel**  
*Managing Director*

14th February, 2003

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