



KAM HING INTERNATIONAL HOLDINGS LIMITED

錦興國際控股有限公司  
(Incorporated in the Cayman Islands with limited liability)  
(Stock code: 2307)

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION  
AND  
RESUMPTION OF TRADING

On 27 December 2006, Highkeen, an indirect wholly-owned subsidiary of the Company, the Company, Special Skill, Mr. Chin, Chung Lap Dyeing and Sing Pong entered into the JV Agreement to establish the JV Company. Pursuant to the JV Agreement, Highkeen agreed to contribute a sum of approximately HK\$64,500,000 in cash and assets to the JV Company and Special Skill agreed to contribute a sum of approximately HK\$43,000,000 in cash and assets to the JV Company. The JV Company will be owned beneficially as to 60% by Highkeen and as to 40% by Special Skill. Pursuant to the JV Agreement, Highkeen also undertakes to lease to the PRC Company the Production Facilities and the Staff Quarter.

Since a percentage ratio under Chapter 14 of the Listing Rules for the transactions under the JV Agreement exceeds 25% or more but less than 100%, the JV Agreement constitutes a major transaction of the Company under the Listing Rules and hence subject to an announcement and approval of the Shareholders. No Shareholders are required to abstain from voting if the Company were to convene a general meeting to approve the JV Agreement. A closely allied group of Shareholders, namely, Exceed Standard Limited and Power Strategy Limited, in aggregate hold 480,000,000 Shares or 75% of the total issued share capital of the Company and have the right to attend and vote at a general meeting of the Company to approve the JV Agreement, had on 27 December 2006 provided to the Company their written approvals to the JV Agreement pursuant to rule 14.44 of the Listing Rules.

As the JV Company will be a connected person of the Company, the Lease will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. Since each of the percentage ratios (other than the profits ratio) of the annual rental of the Lease is less than 2.5%, the Lease is subject to the reporting and announcement requirements but exempt from independent Shareholders’ approval requirement under rule 14A.34 of the Listing Rules.

A circular containing, among other things, the details of the JV Agreement will be despatched to the Shareholders as soon as practicable.

Trading in the Shares was suspended at the request of the Company with effect from 9:30 a.m. on 28 December 2006 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for trading in the Shares to resume from 9:30 a.m. on 2 January 2007.

**Shareholders and potential investors should note that the JV Agreement, which is subject to a number of conditions precedents, may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.**

THE JV AGREEMENT

Date

27 December 2006

Parties

- (a) Highkeen, an indirect wholly-owned subsidiary of the Company;
- (b) the Company;
- (c) Special Skill. To the best knowledge of the Directors, Special Skill and its ultimate owners are third parties independent of, and not connected with, the Company, the connected persons of the Company and their respective associates;
- (d) Mr. Chin;
- (e) Chung Lap Dyeing. To the best knowledge of the Directors, Chung Lap Dyeing and its ultimate owners are third parties independent of, and not connected with, the Company, the connected persons of the Company and their respective associates; and
- (f) Sing Pong. To the best knowledge of the Directors, Sing Pong and its ultimate owners are third parties independent of, and not connected with, the Company, the connected persons of the Company and their respective associates.

Each of Special Skill, Mr. Chin, Chung Lap Dyeing and Sing Pong has represented, warranted and undertaken to Highkeen that, among others, Special Skill is duly incorporated and has the power to enter into the JV Agreement and the Machinery and Equipment and the Other Assets are free from encumbrances and can be freely transferred.

Conditions precedents

The JV Agreement is conditional upon:

- (a) in accordance with the relevant provisions of the Listing Rules, (i) a press announcement has been made by the Company, (ii) the JV Agreement and the transactions contemplated hereunder have been approved by the Shareholders and all other applicable regulations have been fully complied with; and
- (b) all other consents, authorisations or approvals (or, as the case may be, the relevant waiver) of any kind in connection with the JV Agreement and the transactions contemplated thereunder have been obtained.

In the event that any of the above conditions is not fulfilled and/or waived (other than paragraph (a)) by Highkeen on or before three months from the date of the JV Agreement (or such later date as the parties may mutually agree) (the “**Long-Stop Date**”), the rights and obligations of the parties under the JV Agreement shall lapse and be of no further effect, in which event the parties to the JV Agreement shall be released from such obligations without any liability save as to any antecedent breach and provided that any right or remedies which shall have accrued shall not be prejudiced or affected. The Deposits paid before the Long-Stop Date shall be refunded to the relevant party without interests within 7 business days after such termination.

Payment of Deposits

On or before the date of this Agreement, Highkeen shall deliver to the Company a cashier order or a cheque drawn in favour of “Kam Hing International Holdings Limited” in the sum of HK\$4,500,000; and Special Skill shall deliver to the Company a cashier order or a cheque drawn in favour of “Kam Hing International Holdings Limited” in the sum of HK\$3,000,000, as deposits.

The Deposits will be applied as the partial payment for the first contribution of Highkeen and Special Skill to the JV Company. The Company agrees to hold the Deposits as the escrow agent for Highkeen and Special Skill and applied the Deposits in accordance with the terms and conditions of the JV Agreement. Highkeen shall have the right to forfeit the HK\$3,000,000 deposit paid by Special Skill if the JV Agreement is terminated before the first contribution is made to the JV Company.

Establishment of the JV Company

The JV Company shall be established and shall be beneficially held by Highkeen and Special Skill in the proportion of 60% and 40% respectively. The principal business of the JV Company will be investment holding and trading of finished fabrics. The authorised share capital of the JV Company will be HK\$200,000,000 divided into 200,000 shares of HK\$1,000 each. The issued share capital of the JV Company upon completion of the contributions made by Highkeen and Special Skill under the paragraph headed “Capital contribution” below will be HK\$107,500,000 divided into 107,500 shares of HK\$1,000 each.

Capital contribution

Highkeen and Special Skill shall contribute a total of approximately HK\$107,500,000 to the JV Company in the following manner:

- (a) approximately HK\$64,500,000 to be made by Highkeen with:
  - (i) approximately HK\$62,780,000 to be made in cash; and
  - (ii) approximately HK\$1,720,000 to be made by the provision of the Highkeen Assets,
- (b) approximately HK\$43,000,000 to be made by Special Skill with:
  - (i) approximately HK\$22,810,000 to be made in cash;
  - (ii) approximately HK\$19,440,000 to be made by the provision of the Machinery and Equipment; and
  - (iii) approximately HK\$750,000 to be made by the provision of the Other Assets.

The contribution will be made in 5 instalments with the first contribution to be made on or before 31 March 2007 (but in any event not later than 3 months from 31 March 2007) and the last contribution to be made on or before 31 March 2008 (but in any event not later than 3 months from 31 March 2008). The JV Company will become an indirect subsidiary of the Company and its accounts will be consolidated into the Group’s.

The Machinery and Equipment, the Highkeen Assets and the Other Assets are free from any encumbrances. The Machinery and Equipment and the Other Assets are owned by Special Skill and the Highkeen Assets are owned by the Group.

According to a valuation report of RHL Appraisal Limited, a qualified independent valuer appointed by Highkeen, the value of the Machinery and Equipment as at 30 September 2006 was approximately HK\$20,829,000. Highkeen and Special Skill agreed that the value of the Machinery and Equipment as at the date of its contribution to the JV Group will be approximately HK\$19,440,000. Highkeen and Special Skill agreed that the value of the Highkeen Assets and the Other Assets was approximately HK\$1,720,000 and HK\$750,000 respectively as at the date of the JV Agreement, with references to the their then market rate.

The issued share capital of the JV Company shall be beneficially held by Highkeen and Special Skill in the proportion of 60% and 40% respectively. During the term of the JV Agreement, issue of new shares other than those pursuant to the contribution to be made to the JV Company as stated in the JV Agreement shall be consented to by Highkeen and Special Skill.

Further funding

Highkeen and Special Skill will contribute additional funding to the JV Group by means of subscription of new shares, loans or other financing means in the proportion to their shareholding in the JV Company unless otherwise agreed to. Subject to all applicable laws, rules and regulations, Highkeen may use reasonable endeavour (but under no obligation) to obtain or procure banking facilities and/or provide shareholder’s loan in an aggregate sum of not more than HK\$61,000,000 to the JV Group, and such loan is intended to be procured and/or provided in proportion to shareholding of Highkeen and Special Skill in the JV Company. Should future funding to the JV Company is not made proportional to the shareholding in the JV Company, the Company will comply with the requirements of the Listing Rules in raising such funding.

Composition of the board of directors

The board of directors of the JV Company shall consist of 5 directors. Highkeen shall be entitled to nominate 3 directors and Special Skill shall be entitled to nominate 2 directors. The chairman of the board of directors of the JV Company will be nominated by Highkeen and the chairman will have a second or casting vote in the event of an equality of votes.

Dividend policy and performance bonus

Highkeen and Special Skill agree that subject to the appropriation of prudent and proper reserves and the retention out of profits of funds to meet its reasonable working capital needs and any requirements as to solvency or otherwise applicable to the JV Company (whether under any statute, regulation or ruling), the JV Company will distribute to and among its shareholders the amount of dividends as determined by the board of directors of the JV Company. It is the present intention of the parties that, subject to the decision of the board of directors of the JV Company, the JV Company will declare, for each year, dividends to its shareholders in an amount not less than 25% of the audited consolidated profit after tax of the JV Group.

Subject to the decision of the board of directors of the JV Company, it is the present intention of the parties that not less than 5% of the audited consolidated profit after tax of the JV Group will be used and paid to the management staff of the JV Group as performance bonus in such manner as to be determined by the board of the directors of the JV Company.

Lease

Under the JV Agreement, Highkeen undertakes that, subject to the Listing Rules and all other applicable laws, rules and regulations, it will procure its subsidiary or fellow subsidiary to lease to the PRC Company the Production Facilities and the Staff Quarter on terms at market rate with reference to the valuation prepared by a qualified valuer in Hong Kong and separate lease agreement(s) is/are to be entered into by the PRC Company and Highkeen or its subsidiary or fellow subsidiary. Both Highkeen and Special Skill acknowledge that the Production Facilities and the Staff Quarter will be constructed and the actual gross floor area and site area to be leased will be subject to the finalization of the construction plans of the Production Facilities and the Staff Quarter. The initial term of the lease agreement(s) is three years from the date of the relevant lease agreement(s), which is expected to be the date upon which the PRC Company first commences its testing production and the expected annual rental for the Production Facilities will be approximately HK\$3,089,000 and the expected annual rental for the Staff Quarter will be approximately HK\$432,000. The rentals are reached by Highkeen and Special Skill with reference to the market rental of approximately HK\$3,521,000 made by RHL Appraisal Limited as at 30 November 2006. Upon expiry of the initial term of three years of the leases, the parties to the leases may renew the relevant leases on a rental of market rate. It is expected that the PRC Company will commence production in early 2008. The Company will make an appropriate announcement and comply with the requirements of the Listing Rules at the time the relevant lease agreement(s) is/are entered into.

INFORMATION ON THE JV COMPANY AND THE PRC COMPANY

The JV Company will be a company incorporated in Hong Kong with limited liability. The JV Company will be the holding company of the PRC Company. The principal business activity of the JV Company will be investment holding and trading of finished fabrics. Upon establishment of the PRC Company, the PRC Company will be a wholly foreign-owned enterprise wholly owned by the JV Company.

The PRC Company will be located in An Tang Zhou Section, Enping Shi, Guangdong Province, the PRC. The PRC Company will be principally engaged in the manufacture and trading of knitted and dyed fabrics. The proposed total investment amount of the PRC Company upon establishment is US\$20,000,000 (equivalent to approximately HK\$156,000,000) and the proposed registered capital of the PRC Company upon establishment is US\$12,000,000 (equivalent to approximately HK\$93,600,000). The initial term of operation of the PRC Company is 20 years from its establishment. The funding of the PRC Company will be from its shareholder namely the JV Company, loans and other means of financing. Each of Highkeen and Special Skill undertook to procure that all contributions made by it to the JV Company be invested and contributed to the PRC Company. Subject to the applicable laws, rules and regulations and the articles of association of the PRC Company, the parties intend that the dividend policy and bonus policy of the PRC Company will be consistent with those of the JV Company.

INFORMATION OF SPECIAL SKILL

Special Skill is a company with limited liability incorporated in Hong Kong and is owned by Mr. Chin, Chung Lap Dyeing and Sing Pong as to 25%, 50% and 25% respectively. The principal business of Special Skill is dyeing and finishing of knitted fabrics. Chung Lap Dyeing is a company with limited liability incorporated in Hong Kong and is wholly-owned by Mr. Chin and his family members. The principal business of Chung Lap Dyeing is dyeing and finishing of knitted fabrics. Sing Pong is a company with limited liability incorporated in Hong Kong and owned by Mr. Fong Kin Pong, an Independent Third Party, as to 55% and the remaining 45% by his associates. The principal business of Sing Pong is investment holding.

To the best knowledge of the Directors, Special Skill and its ultimate owners are third parties independent of, and not connected with, the Company, the connected persons of the Company and their respective associates.

REASONS FOR AND BENEFITS OF ENTERING INTO THE JV AGREEMENT

The principle activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of finished knitted fabrics. Upon establishment of the JV Company, the Company will be indirectly interested in the registered capital of the PRC Company.

The Directors consider that the establishment of the JV Company represents an opportunity for the Group to increase its production capacity. Given that Chung Lap Dyeing and its shareholders have more than 20 years of experience in the industry of dyeing and finishing of knitted fabrics and is a major sub-contractor of the Group and the shareholders of Sing Pong have more than 15 years of experience in the industry of finishing knitted fabrics, the Directors believe that the establishment of the JV Company will enable the Group to syndicate Highkeen and Special Skill’s expertise in the knitted and dyed fabrics industry. The Directors, including the independent non-executive Directors, consider that the terms of the JV Agreement were entered into on normal commercial terms after arm’s length negotiations and that the terms of the JV Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LISTING RULES

Since a percentage ratio under Chapter 14 of the Listing Rules for the transactions under the JV Agreement exceeds 25% or more but less than 100%, the JV Agreement constitutes a major transaction of the Company under the Listing Rules and hence subject to an announcement and approval of the Shareholders. No Shareholders are required to abstain from voting if the Company were to convene a general meeting to approve the JV Agreement. A closely allied group of Shareholders, namely, Exceed Standard Limited and Power Strategy Limited, in aggregate hold 480,000,000 Shares or 75% of the total issued share capital of the Company and have the right to attend and vote at a general meeting of the Company to approve the JV Agreement, had on 27 December 2006 provided to the Company their written approvals to the JV Agreement pursuant to rule 14.44 of the Listing Rules. Details of the closely allied group of Shareholders are set out below:

Shareholder	Relationship	Number of Shares held	Percentage of shareholding in the Company
Exceed Standard Limited	(Note 1)	384,000,000	60%
Power Strategy Limited	(Note 2)	96,000,000	15%
		<u>480,000,000</u>	<u>75%</u>

- Notes:
- Exceed Standard Limited is a company incorporated in the British Virgin Islands. The entire issued share capital of which is owned by Mr. Tai Chin Chun, the chairman and an executive director of the Company and founder of the Group. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen.
  - Power Strategy Limited is a company incorporated in the British Virgin Islands. The entire issued share capital of which is owned by Mr. Tai Chin Wen, the vice-chairman and an executive director of the Company and founder of the Group. Mr. Tai Chin Wen is the older brother of Mr. Tai Chin Chun.

As the JV Company will be a connected person of the Company, the Lease will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. Since each of the percentage ratios (other than the profits ratio) of the annual rental of the Lease is less than 2.5%, the Lease is subject to the reporting and announcement requirements but exempt from independent Shareholders’ approval requirement under rule 14A.34 of the Listing Rules.

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DEFINITIONS

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Chung Lap Dyeing”	Chung Lap Dyeing and Finishing Company Limited, a company incorporated in Hong Kong with limited liability and held by Mr. Chin and his family members
“Company”	Kam Hing International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deposits”	the deposits paid by Highkeen and Special Skill on or before the signing of the JV Agreement
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Highkeen”	Highkeen Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“Highkeen Assets”	the assets (being production machinery and equipment) free from encumbrance as set out in the JV Agreement (and/or other assets to be mutually agreed to by Highkeen and Special Skill in writing) and of a value of approximately HK\$1,720,000 as at the date of the JV Agreement as agreed by Highkeen and Special Skill with reference to the then current market rate
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders who are not involved in or interested in the JV Agreement
“Independent Third Party”	independent third party not being connected person(s) (as defined in the Listing Rules) of the Company or the Directors, chief executives, substantial shareholders of the Company and any of its subsidiaries or respective associates
“JV Agreement”	the agreement entered into between Highkeen, the Company, Special Skill, Mr. Chin, Chung Lap Dyeing and Sing Pong on 27 December 2006, details of which are set out in the section headed “the JV Agreement” of this announcement
“JV Company”	a joint venture to be incorporated in Hong Kong with limited liability by Highkeen and Special Skill pursuant to the terms of the JV Agreement
“JV Group”	the JV Company and its subsidiaries, including the PRC Company
“Lease”	the lease in respect of the Production Facilities and Staff Quarter to be granted by Highkeen or its subsidiary or its fellow subsidiary to the PRC Company, details of which are set out in the paragraph headed “Lease” of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machinery and Equipment”	means the machinery and equipment free from any encumbrance as set out in the JV Agreement (and/or other machinery and equipment to be mutually agreed to by Highkeen and Special Skill in writing) of a value (as shown in the valuation report of a qualified independent valuer in Hong Kong appointed by Highkeen) of approximately HK\$20,829,000 as at 30 September 2006
“Mr. Chin”	Mr. Chin Tai Wing, an Independent Third Party
“Other Assets”	the assets (being vehicles, production trolley and electronic scale for production) free from encumbrance as set out in the JV Agreement (and/or other assets to be mutually agreed to by Highkeen and Special Skill in writing) and of a value of approximately HK\$750,000 as at the date of the JV Agreement as agreed by Highkeen and Special Skill with reference to the then current market rate
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“PRC Company”	a wholly foreign-owned enterprise to be established in the PRC and held as to 100% by the JV Company
“Production Facilities”	the production facilities (excluding the machinery and equipment) located in An Tang Zhou Section, Enping Shi, Guangdong Province, the PRC with an expected total gross floor area of approximately 40,000 square metres and an expected site area of approximately 20,000 square metres
“Shareholders”	holders of the Shares
“Shares”	the ordinary shares of HK\$0.10 each in the capital of the Company
“Sing Pong”	Sing Pong (China) Limited, a company incorporated in Hong Kong with limited liability and held by Mr. Fong Kin Pong, an Independent Third Party, and his associates
“Special Skill”	Special Skill Piece Works (International) Limited, a company incorporated in Hong Kong with limited liability, the entire issued share capital of which is held by Mr. Chin, Chung Lap Dyeing and Sing Pong as to 25%, 50% and 25% respectively
“Staff Quarter”	a staff quarter located on the Production Facilities site of approximately 5,000 square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited or, as the case maybe, the main board operated by the Stock Exchange
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

For the purpose of this announcement, unless otherwise indicated, the exchange rate at US\$1.00 = HK\$7.8 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged.

By Order of the Board  
**Kam Hing International Holdings Limited**  
**Mr. Tai Chin Chun**  
*Chairman*

Hong Kong, 29 December 2006

As at the date of this announcement, the executive Directors are Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan, Ms. Wong Siu Yuk and Mr. Chong Chau Lam; and the independent non-executive Directors are Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony.