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## **ELEGANCE INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

website: <http://www.elegance-group.com>

**(Stock Code: 907)**

### **CONTINUING CONNECTED TRANSACTIONS RENEWAL OF TRADING ARRANGEMENTS WITH THE SÀFILO GROUP**

The Group entered into the Supplemental Agreement dated 12 February 2010 with Sàfilo to renew the Supply Agreement for the New Term of three years ending 31 March 2013, for continuation of the Transactions involving the sale of optical frames, sunglasses and other products to the Sàfilo Group. The New Cap for the Transactions for the financial years ending 31 March 2011, 2012 and 2013 are proposed to be HK\$225 million, HK\$244 million and HK\$279 million respectively.

SFEL, a wholly-owned subsidiary of Sàfilo, is a substantial Shareholder of the Company. Sàfilo is therefore a connected person of the Company. The Transactions under the Supplemental Agreement arising from time to time will constitute non-exempt continuing connected transactions for the Company under the Listing Rules. The Company proposes to seek the Independent Shareholders' approval of the Supplemental Agreement, the Transactions under it and the New Cap.

A circular containing, among other things, details of the Supplemental Agreement, the Transactions and the New Cap, the advice of the IFA and the recommendations of the Independent Board Committee, together with a notice convening a special general meeting of the Company to approve the Supplemental Agreement, the Transactions under it and the New Cap will be despatched to the Shareholders as soon as practicable.

#### **BACKGROUND**

The Group is principally engaged in the businesses of design, manufacture and sale of metal and plastic optical frames and sunglasses.

On 18 April 1997, the Company and Sàfilo had entered into the Supply Agreement pursuant to which the Group agreed to supply the Products to the Sàfilo Group. Each sale and purchase of such Products are made subject to purchase orders placed by the Sàfilo Group with the Group from time to time, at prices agreed between them on an arm's length basis based on market conditions. A discount based on a formula will be given if the aggregate invoiced amount reaches a certain level.

Sàfilo was established in Italy in 1934 and is a well-known eyewear producer in the premium eyewear market segment. As at the date of this announcement, SFEL, a wholly-owned subsidiary of Sàfilo, is interested in approximately 23.05% of the issued share capital of the Company. Accordingly, SFEL is a substantial Shareholder of the Company and the Transactions under the Supplemental Agreement will constitute continuing connected transactions of the Company under the Listing Rules.

In 2007, the Company obtained Independent Shareholders' approval based on the Existing Cap in relation to the Transactions for the period up to 31 March 2010. As the Directors expect the Transactions to continue, the Company proposes to seek Independent Shareholders' approval of the Supplemental Agreement and the Transactions under it and the New Cap.

#### **THE SUPPLEMENTAL AGREEMENT**

To comply with the requirements of the Listing Rules, the Company and Sàfilo had entered into the Supplemental Agreement dated 12 February 2010 incorporating the terms of the Supply Agreement and setting out the expected annual amounts of Products the Sàfilo Group proposes to purchase from the Group. Subject to Independent Shareholders' approval, the Supplemental Agreement will be effective for the New Term.

Under the Supplemental Agreement, the Transactions shall be on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties. The aggregate expected maximum annual amount of the Transactions set out in the Supplemental Agreement for the next three financial years ending 31 March 2011, 2012 and 2013 are proposed to be HK\$225 million, HK\$244 million and HK\$279 million respectively. The Supplemental Agreement states that if and to the extent that the aggregate consideration received by the Group has reached the amounts of the New Cap, any further Transactions will be subject to compliance with requirements of the Listing Rules by the Company.

#### **NEW CAP PROPOSED**

The aggregate values of the Transactions for the two years ended 31 March 2009 (based on the audited consolidated financial statements of the Group) and for the six months ended 30 September 2009 (based on the unaudited consolidated financial statements of the Group) are set out below. As at the date hereof, the Group has not exceeded any of the Existing Cap.

	<i>Amount (in HK\$'000)</i>					
	Year ended 31.03.2008	Year ended 31.03.2009	Year ending 31.03.2010	Year ending 31.03.2011	Year ending 31.03.2012	Year ending 31.03.2013
Existing Cap/New Cap	390,000	470,000	565,000	225,000	244,000	279,000
Actual Annual Value of Transactions	232,053	189,405	73,410 (Note)	–	–	–

*Note:* It is based on the unaudited consolidated interim financial statements of the Group for the six months ended 30 September 2009.

### **REASONS FOR, AND BASIS OF, THE SUPPLEMENTAL AGREEMENT AND THE NEW CAP PROPOSED**

The New Cap for the New Term is primarily determined by the Company based on the expected amount of purchase orders placed by the Sàfilo Group to the Group for such period.

As set out in the Company's 2009 annual report and 2009/2010 interim report, the Group's business performance and operations, especially in Europe and North America which are the Group's two largest geographical markets, have been adversely affected by the financial tsunami spreading globally since the last quarter of 2008. Under the global financial crisis, customers are more cautious when placing orders. The Group's turnover over these years have decreased significantly, and with it the actual annual value of the Transactions with the Sàfilo Group during such period.

It is, however, anticipated that full economic recovery will take some time, and market sentiment has improved and signs of economic upturn have been seen in the third quarter of 2009. Barring unforeseen circumstances, the Group is cautiously optimistic about its business operation for the rest of this financial year ending 31 March 2010. The Company is hopeful that the upward economic trend will continue, and the Group is satisfied with Sàfilo Group's positive projection of increased orders in the years to come.

The New Cap is based on the proposal made by the Sàfilo Group. In reviewing the forecast figures, the Group has based on, amongst many factors, historical turnovers over the past three years as affected by the unprecedented global financial tsunami since the last quarter of 2008, recent initial signs of economic recovery trend suggesting the expected continued economic recovery and improvement in consumer sentiments, possible price trend in the time to come, possible mix of product categories and the market condition. With new and strengthened financial resources and a new shareholder in Sàfilo which was announced in the latter half of 2009, Sàfilo is now in an even better position to capture the market recovery. The New Cap is considered by the Directors to be a reasonable projection into the future and the Transactions are fair and beneficial to the Group and the Group should take advantage of such growth opportunities.

The Independent Shareholders' approval of these Transactions and the Existing Cap is only up to 31 March 2010. The continuing business between the Group and the Sàfilo Group has contributed positively to the Group's results over the past 14 years and the Directors consider that the Transactions with the Sàfilo Group has been an important part and source of business for the Group. The Directors expect that in view of the good long term working relationship which it has established with the Sàfilo Group, the Group's business with the Sàfilo Group will continue to grow and will contribute to the growth prospects of the Group's business as a whole.

The Directors believe that it is in the interest of the Company to seek Independent Shareholders' approval for the continuation of the Transactions up to the limits specified in the New Cap as set out above. The Directors (other than the independent non-executive Directors whose opinion will be provided after consideration of the advice from the IFA) are of the view that the terms of the Supplemental Agreement and the Transactions under it (including the New Cap) are fair and reasonable and in the interests of the Shareholders as a whole and that the Supplemental Agreement and the Transactions under it are to be entered into on normal commercial terms.

As certain percentage ratios in respect of the New Cap for the Transactions on an annual basis exceed 2.5%, the Transactions will constitute non-exempt continuing connected transactions of the Company under the Listing Rules. Accordingly, the Transactions as contemplated under the Supplemental Agreement and the New Cap are subject to Independent Shareholders' approval.

## **GENERAL**

An Independent Board Committee has been constituted to advise and make recommendation to the Independent Shareholders as to whether the terms of the Supplemental Agreement, the Transactions under it and the New Cap are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole and in respect of the ordinary resolution to approve the same. The IFA has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard.

A circular containing, among other things, details of the Supplemental Agreement, the Transactions under it and the New Cap, the advice of the IFA and the recommendations of the Independent Board Committee, together with a notice convening a special general meeting of the Company to approve the Supplemental Agreement and the Transactions under it and the New Cap will be despatched to the Shareholders as soon as practicable. SFEL and its associates will abstain from voting at the special general meeting to be convened for this purpose. The votes of Independent Shareholders in the special general meeting will be taken by poll.

## DEFINITIONS

The following defined terms are used in this announcement:

“2007 Circular”	the circular of the Company dated 9 March 2007
“associate”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Elegance International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Existing Cap”	the annual cap for the Transactions for the three financial years ending 31 March 2010 as approved by the Independent Shareholders at the special general meeting held on 30 March 2007, further particulars of which are set out in the 2007 Circular
“Group”	the Company and its subsidiaries
“IFA”	Nuada Limited, the independent financial adviser of the Company, is a licensed corporation permitted to engage in type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Independent Board Committee”	a board committee comprising the independent non-executive Directors of the Company constituted to advise and make recommendations to the Independent Shareholders in respect of the Supplemental Agreement, the Transactions under it and the New Cap
“Independent Shareholders”	Shareholders other than SFEL and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“New Cap”	the maximum annual amount of Transactions for each of the three financial years ending 31 March 2013 during the New Term
“New Term”	the three financial years of the Company ending 31 March 2011, 2012 and 2013

“Products”	optical frames, sunglasses and other products
“Sàfilo”	Sàfilo S.p.A., a company incorporated in Italy with limited liability
“Sàfilo Group”	Sàfilo and its subsidiaries
“SFEL”	Sàfilo Far East Limited, a wholly-owned subsidiary of Sàfilo and a substantial Shareholder holding approximately 23.05% of the issued share capital of the Company
“Shareholder(s)”	holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto in the Listing Rules
“substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Supplemental Agreement”	the supplemental agreement entered into between the Company and Sàfilo on 12 February 2010 which is supplemental to the Supply Agreement
“Supply Agreement”	the supply agreement entered into between the Company and Sàfilo on 18 April 1997 as amended by amendment agreements made between the same parties on 7 July 1998, 15 February 2007 and the Supplemental Agreement (subject to approval by the Independent Shareholders)
“Transactions”	the sales of optical frames, sunglasses and other products by the Group to the Sàfilo Group pursuant to the Supply Agreement

By Order of the Board  
**Elegance International Holdings Limited**  
**Hui Leung Wah**  
*Chairman*

*As at the date of this announcement, the executive directors of the Company are Mr. Hui Leung Wah, Mr. Poon Sui Hong and Mr. Leung Shu Sum, the non-executive directors are Ms. Lissi Barbara and Ms. Marchisio Paola and the independent non-executive directors are Mr. Poon Kwok Fai, Ronald, Dr. Tam Hok Lam, Tommy, PhD, JP and Mr. Wong Chung Mat, Ben, JP.*

Hong Kong, 17 February 2010