LITYAN HOLDINGS BERHAD
LITYAN
29/07/2005

Type : **Announcement**

Subject : **LITYAN HOLDINGS BERHAD ("LITYAN" OR "COMPANY")**
· PROPOSED ACQUISITION OF GUANHONG GROUP;
· PROPOSED EXEMPTION;
· PROPOSED SCHEME OF ARRANGEMENT WITH SHAREHOLDERS;
· PROPOSED SCHEME OF ARRANGEMENT WITH CREDITORS;
· PROPOSED ISSUANCE OF SHARES;
· PROPOSED OFFER FOR SALE;
· PROPOSED TRANSFER OF LISTING STATUS; AND
· PROPOSED DISPOSAL
(COLLECTIVELY, THE "PROPOSED RESTRUCTURING SCHEME")

Contents:

1. INTRODUCTION

On behalf of Lityan, Avenue Securities Sdn Bhd ("Avenue") wishes to announce that Lityan had on 29 July 2005 entered into a conditional restructuring agreement ("Restructuring Agreement") with Giant Best Corporation Limited ("Vendor"), Chen Xinmin and Lim Chu Fatt (collectively, the "Guanhong Principal Shareholders") wherein Lityan, the Vendor and the Guanhong Principal Shareholders have agreed in principle to undertake the Proposed Restructuring Scheme with the intention of restoring Lityan onto stronger financial footing via an injection of new viable businesses.

The Proposed Restructuring Scheme to be undertaken by Lityan shall entail the following:-

(i) Proposed acquisition by NewCo, (a company incorporated or to be incorporated to serve as the holding company, to facilitate the implementation of the Proposed Restructuring Scheme) of the entire equity interest in Hong Kong Kwun Wang International Holdings Limited ("KWIH") upon completion of the Guanhong Internal Restructuring Exercise (as defined hereunder) from the Vendor for an indicative purchase consideration of RM475,000,000 ("Guanhong Group Purchase Consideration") to be satisfied by the allotment and issuance of new ordinary shares of RM1.00 each in NewCo ("NewCo Shares"), the aggregate value of which is equivalent to the Guanhong Group Purchase Consideration, to the Vendor ("Proposed Acquisition of Guanhong Group").

KWIH, Shishi Guanhong Clothing Printer Co., Ltd ("Guanhong") and Fujian Guanyuan Printing & Dyeing Co., Ltd ("Guanyuan") (collectively the "Guanhong

Group") are currently undertaking an internal restructuring exercise which will result in the corporate and shareholding structure of the Guanhong Group as shown in **Table 1** below ("Guanhong Internal Restructuring Exercise");

(ii) Upon completion of the Proposed Acquisition of Guanhong Group, the Vendor is expected to hold more than 99.99% (but less than 100.00%) equity interest in NewCo. In accordance with Paragraph 6(1)(a) of Part II of the Malaysian Code on Take-overs and Mergers, 1998 ("Code"), the Vendor together with Guanhong Principal Shareholders are obliged to undertake a mandatory general offer for all the remaining NewCo Shares not already held by them upon completion of the Proposed Acquisition of Guanhong Group.

In this respect, the Vendor together with the Guanhong Principal Shareholders intend to apply to the Securities Commission ("SC") for an exemption under the relevant provisions of the Code from having to undertake the mandatory offer ("Proposed Exemption");

(iii) Proposed scheme of arrangement with Lityan's shareholders involving:-

(a) proposed reduction of the existing issued and paid-up share capital of Lityan of RM102,806,000 comprising 102,806,000 ordinary shares of RM1.00 each in Lityan ("Lityan Shares") to RM5,140,300 comprising 102,806,000 ordinary shares of RM0.05 each in Lityan. The proposed reduction of Lityan's share capital will result in a credit of RM97,665,700 which will be utilised to reduce the accumulated losses of Lityan ("Proposed Capital Reduction");

(b) proposed consolidation of 102,806,000 ordinary shares of RM0.05 each in Lityan into 5,140,300 Lityan Shares ("Proposed Consolidation"); and

(c) proposed share exchange of the entire issued and paid-up share capital in Lityan of 5,140,300 Lityan Shares for 5,140,300 new NewCo Shares at par on the basis of one (1) NewCo Share for every one (1) existing Lityan Share held after the Proposed Consolidation ("Proposed Share Exchange").

(collectively, the "Proposed Scheme of Arrangement with Shareholders")

(iv) Proposed settlement and/or compromise of the liabilities (including contingent liabilities) owing by Lityan to its creditors ("Scheme Creditors") via inter-alia, the issuance by NewCo of not more than 15,000,000 new NewCo Shares to the Scheme Creditors as full and final settlement of the liabilities owing ("Proposed Scheme of Arrangement With Creditors");

(v) Proposed issuance of up to 50,000,000 new NewCo Shares to the existing shareholders of Lityan and/or identified investors and/or the public at a minimum issue price of RM1.00 per share ("Proposed Issuance of Shares");

(vi) Proposed offer for sale of up to 70,000,000 NewCo Shares by the Vendor upon completion of the Proposed Acquisition of Guanhong Group to the existing shareholders of Lityan and/or eligible investors to be identified in order to meet the public spread requirement as stipulated under the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Proposed Offer for Sale");

(vii) Proposed transfer of the listing status of Lityan on the Main Board of Bursa Securities to NewCo ("Proposed Transfer of Listing Status"); and

(viii) Proposed disposal of the entire issued and paid-up share capital of Lityan to a purchaser to be identified ("Lityan Group Purchaser") ("Proposed Disposal").

(collectively, the "Proposed Restructuring Scheme")

2. DETAILS OF THE PROPOSED RESTRUCTURING SCHEME

The preliminary details of the Proposed Restructuring Scheme are as follows:-

2.1 Proposed Acquisition of Guanhong Group

NewCo proposes to acquire the entire equity interest in KWIH from the Vendor upon completion of the Guanhong Internal Restructuring Exercise for an indicative purchase consideration of RM475,000,000 to be satisfied by the allotment and issuance of new NewCo Shares ("Consideration Shares"), the aggregate value of which is equivalent to the Guanhong Group Purchase Consideration, to the Vendor.

KWIH, Guanhong and Guanyuan are currently undertaking an internal restructuring exercise which will result in the corporate and shareholding structure of the Guanhong Group as shown in **Table 1** below.

The indicative purchase consideration of RM475,000,000 was arrived at on a willing-buyer willing-seller basis after taking into consideration the following:-

(i) the potential future earnings of the Guanhong Group; and

(ii) the historical performance of the Guanhong Group.

The proposed issue price of the Consideration Shares of RM1.00 each was arrived at after taking into consideration of the following:-

(i) the Proposed Restructuring Scheme;

(ii) the future earnings of the Guanhong Group; and

(iii) the par value of the NewCo Shares of RM1.00 per share.

All Consideration Shares to be issued pursuant to the Proposed Acquisition of Guanhong Group shall rank *pari passu* in all respects with the existing NewCo Shares except that they will not be entitled to any rights, dividends, allotment and/or other distributions for which the relevant entitlement date precedes the relevant issue date of the Consideration Shares.

The detailed terms and conditions of the Proposed Acquisition of Guanhong Group will be finalised and announced upon the execution of the definitive agreements.

2.1.1 Information on KWIH

KWIH was incorporated in Hong Kong as a company limited by shares on 20 May 1998. The authorised share capital of KWIH is Hong Kong Dollar ("HKD") 10,000 comprising 10,000 ordinary

shares of HKD1.00 each. As at 1 July 2005, the issued and paid-up share capital of KWIH is HKD10,000 comprising 10,000 ordinary shares of HKD1.00 each.
The principal activity of KWIH is investment holdings. As at 1 July 2005, KWIH has a wholly-owned subsidiary namely, Guanyuan. KWIH does not have any associated company.

2.1.2 Information on Guanyuan

Guanyuan was established in the People's Republic of China ("PRC") as a wholly foreign owned enterprise on 10 June 1999 under the name of Shishi Guanyuan (Fujian) Yarn-dyeing Co Ltd. It assumed its present name on 28 August 2000. Both the approved investment capital and registered capital of Guanyuan are HKD100,000,000. The principal activities of Guanyuan are fabrics processing, dyeing and finishing. As at 1 July 2005, Guanyuan does not have any subsidiary or associated company.

2.1.3 Information on Guanhong

Guanhong was first established in the PRC as a sino-foreign equity joint venture enterprise on 14 November 1992 under the name of Shishi Guanyuan Fabrics Printing Co Ltd. It assumed its present name on 25 July 1994. It was subsequently approved by the local foreign economic and trade authority to be converted into a wholly foreign owned enterprise on 6 June 2001. Both the approved investment capital and registered capital of Guanhong are Renminbi ("RMB") 15,000,000. The principal activities of Guanhong are fabrics processing, dyeing and finishing. As at 1 July 2005, Guanhong does not have any subsidiary or associated company.

2.1.4 Liabilities to be Assumed

NewCo will not directly assume any liabilities of the Guanhong Group under the Proposed Acquisition of Guanhong Group.

Further details of the Guanhong Group (including the financial data and original dates/ cost of investment) will be announced upon execution of the definitive agreements for the Proposed Acquisition of Guanhong Group.

2.2 Proposed Exemption

Upon completion of the Proposed Acquisition of Guanhong Group, the Vendor is expected to hold more than 99.99% (but less than 100.00%) equity interest in NewCo. In accordance with Paragraph 6(1)(a) of Part II of the Code, the Vendor together with the Guanhong Principal Shareholders are obliged to undertake a mandatory general offer for all the remaining NewCo Shares not already held by them upon completion of the Proposed Acquisition of Guanhong Group.

In this respect, the Vendor together with the Guanhong Principal Shareholders intend to apply to the SC for an exemption under the relevant provisions of the Code from having to undertake the mandatory offer.

2.3 Proposed Scheme of Arrangement with Shareholders

Lityan proposes to undertake the following:-

(a) proposed reduction of the existing issued and paid-up share capital of Lityan of RM102,806,000 comprising 102,806,000 Lityan Shares held by the existing shareholders of Lityan to RM5,140,300 comprising 102,806,000 ordinary shares of RM0.05 each in Lityan. The proposed reduction of Lityan's share capital will result in a credit of RM97,665,700 which will be utilised to reduce the accumulated losses of Lityan;

(b) proposed consolidation of 5,140,300 ordinary shares of RM0.05 each in Lityan into 5,140,300 Lityan Shares; and

(c) proposed share exchange of the entire issued and paid-up share capital in Lityan of 5,140,300 Lityan Shares for 5,140,300 new NewCo Shares at par on the basis of one (1) NewCo Share for every one (1) existing Lityan Share held after the Proposed Consolidation.

The Proposed Scheme of Arrangement with Shareholders will be effected pursuant to Sections 64 and 176 of the Companies Act, 1965 ("Act"). The 5,140,300 new NewCo Shares to be issued pursuant to the Proposed Scheme of Arrangement with Shareholders shall rank *pari passu* in all respects with the existing NewCo Shares except that they will not be entitled to any rights, dividends, allotment and/or other distributions for which the relevant entitlement date precedes the relevant issue date of the said shares.

2.4 Proposed Scheme of Arrangement with Creditors

Lityan proposes to enter into discussions with the Scheme Creditors to reach an agreement and/or compromise on the liabilities (including liabilities that are actual and contingent) owing by Lityan to the Scheme Creditors based on the following parameters:-

(a) the settlement of debts owing to the Scheme Creditors amounting to approximately RM121 million based on the cut-off date of 31 December 2004 to be implemented by way of a scheme of arrangement pursuant to Section 176 of the Act;

(b) the waiver by the Scheme Creditors of all interest, penalties, costs, fees and other charges accrued after 31 December 2004;

(c) the release of the contingent liabilities under the corporate guarantees and other security arrangements provided by Lityan (if any);

(d) the repayment of the debts owing to the secured Scheme Creditors (after taking into account paragraphs (a) and (b) above) from the proceeds of the disposal of certain assets of Lityan via a special purpose vehicle, without recourse to any of the Guanhong Principal Shareholders, NewCo or any member of the Guanhong Group; and

(e) the issuance by NewCo of not more than 15,000,000 new NewCo Shares to the unsecured /partially secured Scheme Creditors or such persons as they may each nominate in full and final settlement of the debts owing to them (after taking into account paragraphs (a) to (c) above).

Further details of the Proposed Scheme of Arrangement with Creditors will be announced accordingly when all terms and conditions have been finalised.

2.5 Proposed Issuance of Shares

NewCo will undertake an issuance of up to 50,000,000 new NewCo Shares ("Issue Shares") to the existing shareholders of Lityan and/or identified investors and/or the public at a minimum issue price of RM1.00 per share. The final issue price of the Issue Shares will be determined later.

2.5.1 Ranking of the Issue Shares

The Issue Shares shall, upon allotment and issue, rank *pari passu* in all respects with existing NewCo Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the Issue Shares.

2.5.2 Proposed Utilisation of Proceeds

Based on the minimum issue price of RM1.00 per share, the Proposed Issuance of Shares will raise proceeds of up to RM50,000,000 which shall be utilised to meet the funding requirement for the Guanhong Group and to defray the expenses incidental to the Proposed Restructuring Scheme.

2.6 Proposed Offer for Sale

Concurrent with the Proposed Issuance of Shares, the Vendor will undertake an offer for sale of up to 70,000,000 NewCo Shares to the existing shareholders of

Lityan and/or eligible investors to be identified in order to meet the public spread requirement as stipulated under the Listing Requirements of Bursa Securities. The details of the Proposed Offer for Sale will be announced once it is finalised.

2.7 Proposed Transfer of Listing Status

It is proposed that the entire issued and paid-up capital of Lityan be de-listed from the Official List of the Main Board of Bursa Securities and that the entire issued and paid-up capital of NewCo be admitted to the Official List of the Main Board of Bursa Securities.

2.8 Proposed Disposal

Upon the completion of the Proposed Acquisition of Guanhong Group, Proposed Exemption, Proposed Scheme of Arrangement with Shareholders, Proposed Scheme of Arrangement with Creditors, Proposed Issuance of Shares, Proposed Offer for Sale and Proposed Transfer of Listing Status, NewCo proposes to dispose the entire issued and paid-up share capital of Lityan comprising 5,140,300 Lityan Shares to the Lityan Group Purchaser at a fair value to be determined by an independent valuer and/or auditor (the "Lityan Purchase Consideration").

3. SALIENT TERMS OF THE RESTRUCTURING AGREEMENT

The salient terms of the Restructuring Agreement include, amongst others, the following:-

(i) The Proposed Restructuring Scheme is conditional upon the following conditions precedent being fulfilled within one (1) year from the date of the Restructuring Agreement or by such later date(s) as may be mutually agreed upon in writing ("Cut-off Date"):-

(a) the completion of the Guanhong Internal Restructuring Exercise;

(b) the approval of the following authorities ("Authorities"):-

(1) the SC;
(2) the Foreign Investment Committee ("FIC");
(3) Bursa Securities, for the admission of NewCo to the Official List, the listing of and quotation for

the entire enlarged issued and paid-up shares of NewCo to be issued and allotted pursuant to the Proposed Restructuring Scheme on the Main Board of Bursa Securities and the de-listing of Lityan;

(4) Bank Negara Malaysia ("BNM"); and

(5) if required, any other relevant authorities;

(c) the approval of Lityan's shareholders at general meeting and a court convened meeting;

(d) the approval of the Scheme Creditors at a court convened meeting for the Proposed Scheme of Arrangement with Creditors;

(e) the sanction and confirmation of the High Court of Malaya for the Proposed Restructuring Scheme approved by the Lityan's shareholders at a court convened meeting and the Proposed Scheme of Arrangement with Creditors approved by the Scheme Creditors at a court convened meeting;

(f) the due execution and delivery of all agreements, documents and instruments necessary to document and give effect to the Proposed Restructuring Scheme including but without limitation, the following:-

(1) the entry into, execution and delivery of the definitive agreement(s) by NewCo and the Vendor in respect of the Proposed Acquisition of Guanhong Group; and

(2) the entry into, execution and delivery of the definitive agreement(s) by NewCo and the Lityan Group Purchaser in respect of the Proposed Disposal;

(g) Lityan being reasonably satisfied with the results of the due diligence on the Guanhong Group;

(h) the results of the due diligence on the Lityan group of companies ("Lityan Group") do not reveal or identify any prohibition or restriction in respect of the implementation for the Proposed Disposal and Proposed Transfer of Listing Status; and

(i) the Guanhong Principal Shareholders receiving from a qualified firm of Malaysian legal advisers a legal opinion in such form and substance to its reasonable satisfaction, the scope of which will include: -

(1) the legality and validity of the Proposed Restructuring Scheme;

(2) the exposure of risks (if any) to NewCo arising from or in connection with the liabilities of the Lityan Group from a legal perspective;

(3) the obtaining of all approvals and consents and the effecting of registration and filings so required for the purpose of or in connection with the Proposed Restructuring Scheme;

(4) the legal positions as to the payment or remittance of dividends and/or other distributions by NewCo to its shareholders who are not Malaysian citizens nor Malaysian entities; and

(5) the approvals and consents (if any) of any other relevant authorities in Malaysia pertaining to the investment by NewCo in companies or entities incorporated or established or carrying on business in the PRC or other jurisdictions outside Malaysia,

(j) the Guanhong Principal Shareholders receiving from a qualified firm of Malaysian tax advisers and/or auditors and/or accountants an opinion in such form and substance to its reasonable satisfaction, the scope of which will include:-

(1) the exposure of risks (if any) to NewCo arising from or in connection with the liabilities of the Lityan Group from a

financial perspective; and
(2) the tax positions as to the payment or remittance of dividends and/or other distributions by NewCo to its shareholders who are not Malaysian citizens nor Malaysian entities,

(ii) In the event the conditions precedent referred to in clause (i) above have not been fulfilled by the Cut-off Date, the Restructuring Agreement shall be deemed to be terminated and shall be null and void and of no effect, and none of the parties shall have any claim against the others, save in respect of any antecedent breach;

(iii) In the event the condition(s) of the Authorities' approval is not acceptable to any party, the parties concerned may within 30 days from the receipt of the conditional approval, either make an appeal against the said condition(s) or reject the said condition(s). In default of any election by the parties to appeal or reject the said condition(s), all parties shall be deemed to have accepted the condition(s);

(iv) The parties agree that the Lityan Purchase Consideration and/or Guanhong Group Purchase Consideration (and the number of NewCo Shares to be issued in satisfaction thereof) shall be adjusted accordingly to reflect the purchase considerations as may be approved by the SC ("Approved Purchase Consideration") PROVIDED ALWAYS THAT the Approved Purchase Consideration shall not in any event be varied by more than ten percent (10%) from the Lityan Purchase Consideration and/or Guanhong Group Purchase Consideration (as the case may be). Should the Approved Purchase Consideration be varied by more than ten per cent (10%), the parties shall be allowed to renegotiate the terms and conditions of the Restructuring Agreement and mutually agree on a new purchase consideration in respect of the Proposed Acquisition of Guanhong Group and/or Proposed Disposal (as the case maybe). In the event that the parties are unable to agree on a new purchase consideration within fourteen (14) days of the determination by the SC being notified to Lityan or its adviser, any of the parties hereto may terminate the Restructuring Agreement by giving fourteen (14) days notice in writing to the other party;

(v) Forthwith upon the execution of the Restructuring Agreement, Lityan shall be at liberty to conduct a legal and/or financial due diligence on the Guanhong Group ("Guanhong Group Due Diligence") for the purposes of the Proposed Acquisition of

Guanhong Group and the submissions to be made to the Authorities for approval. The Guanhong Group Due Diligence shall commence on the business day immediately following the date of the Restructuring Agreement and shall be completed by no later than 45 days from the date of the Restructuring Agreement or prior to the execution of the definitive agreements for the Proposed Acquisition of Guanhong Group, whichever is the earlier; and

(vi) The Guanhong Principal Shareholders (together with the Vendor) shall be at liberty to conduct a legal due diligence on the Lityan Group ("Lityan Due Diligence") for the purposes of ensuring that there are no prohibitions or restrictions in respect of the implementation of the Proposed Disposal and the Proposed Transfer of Listing Status. The Lityan Due Diligence shall commence on the business day immediately following the date of the Restructuring Agreement and shall be completed by no later than 45 days from the date of the Restructuring Agreement or prior to the execution of the definitive agreements for the Proposed Acquisition of Guanhong Group, whichever is the earlier.

4. RATIONALE FOR THE PROPOSED RESTRUCTURING SCHEME

Lityan was classified as a PN17/2005 condition company by Bursa Securities on 10 May 2005 and has a period of eight (8) months until 10 January 2006 to submit its plans to regularise its financial condition to the relevant authorities for approval. Based on the audited financial statements of the Lityan Group as at 31 December 2004, the Lityan Group has negative shareholders' funds of RM35.89 million.

The main objective of the Proposed Restructuring Scheme is to return Lityan to a better financial standing and profitability, thereby benefiting all stakeholders via the Guanhong Group.

5. PROSPECTS OF THE GUANHONG GROUP

Upon completion of the Proposed Restructuring Scheme, Lityan will have a new core business via the Guanhong Group whose principal activities are fabrics processing, dyeing and finishing which is closely correlated to the developments in global economy and in particular the PRC's economy and the textile industry.

5.1 Global Economy

World output, projected to grow by 4.6% in 2004, is close to matching the strong global growth of 4.7% at the beginning of the new millennium, the highest in the last two (2) decades. The global economy recovered from the adverse effects of the 11 September incident, which drove the world into recession in 2001, and the Severe Acute Respiratory Syndrome epidemic, as well as the war in Iraq to attain broad-based growth. This recovery was supported by the accommodative monetary and fiscal policies pursued by major economies which revived confidence to fuel global growth.

The continued strengthening of the global economy is mainly driven by sustained consumption and export growth in the United States of America ("USA") and Japanese economies. Elsewhere, the vibrant economies in the Asia-Pacific region, in particular the PRC and to a lesser extent India, further supported the strengthening of global growth. Amidst this optimistic development, world inflation continued to remain benign despite concerns over rising oil prices.

The growth momentum in the global economy in 2005 is expected to decelerate slightly as major economies tighten monetary policy to contain inflationary pressures. Concerns over the possibility of higher oil prices and the slowing down of the PRC's economy are other factors that can dampen growth.

Notwithstanding these uncertainties, it is anticipated that the USA's Federal Reserve Banks would pursue a measured approach in raising interest rates. As for oil price hikes, the effort of the Organisation of the Petroleum Exporting Countries to raise supply to 26 million barrels per day effective 1 August 2004, will help contain the price increases. Against this backdrop, growth in USA is expected to moderate to 3.5% - 4% (2004: 4.5% - 4.7%). In contrast, recovery in the euro area is anticipated to strengthen further to post a real gross domestic product ("GDP") growth of 2.3% (2004: 2%) with a gradual pick-up in domestic demand aided by favourable financing conditions. Overall, the global growth is projected at 4.4% in

2005 (2004: 4.6%).

(Source: Economic Report 2004/2005)

5.2 The PRC's Economy

GDP growth in the PRC accelerated from 9.3% in 2003 to 9.5% in 2004, the highest level since 1997, even though the Government took several steps to dampen sectors that it considered overheated. On the supply side, the growth rate of industry fell to 11.1% in 2004 from 12.7% in 2003. Supply shortages were still experienced in coal, electricity, petroleum and transport.

In the breakdown of demand, fixed asset investment grew by 25.8% in 2004, which was marginally slower than 2003's rate of 27.7% because of the macroeconomic controls. Investment grew faster in manufacturing than in agriculture, services, and small and medium enterprises ("SMEs"). When the growth rate of fixed asset investment shot up to 43% in the first quarter of 2004, the PRC Government implemented a combination of monetary, fiscal and administrative to cool it, especially in the overheated steel, cement, aluminum, automobile and real estate sub-sectors. As a result, growth of investment in manufacturing eased for the full year to 38.3% from 46.3% in 2003.

Total consumption increased faster in 2004 than in 2003, driven by improving rural and urban incomes. External trade maintained its robust uptrend on strong domestic and external demand, with the result that the PRC overtook Japan to become the world's third-largest merchandise trade, after USA and Germany. Merchandise exports rose by 35.4%, with production at foreign-funded enterprises estimated about 58% of exports. Merchandise imports grew by 36.0%. Most of the increase came from energy products and raw materials. Factors behind the import surge were booming investment-led domestic demand, rising international oil prices, and the reduction in import tariffs and removal of non-tariff barriers following the PRC's accession to the World Trade Organisation ("WTO") in 2001. The PRC played a more important role in inter-regional trade, bilateral trade between the PRC and countries in the Association of Southeast Asian Nations, for instance, grew by 36% to over United States Dollar ("USD")100 billion in 2004.

The PRC continued to be a favoured destination for foreign investment. Actual foreign direct investment ("FDI") rose by 13.3% to USD60.6 billion in 2004. Investors come partly for unskilled labour, which is about 4% of the cost in USA and one third of the cost in, for example, Malaysia. Moreover, the country's infrastructure continues to strengthen, and its business environment has improved significantly since it joined WTO. Multinational enterprises have accelerated their relocation of labour-intensive and export-oriented industries to the PRC. WTO membership has prompted an opening of services to more foreign participation, so that FDI in services during 2002 – 2004 on average grew slightly faster than in agriculture and manufacturing.

The economy is likely to achieve its targeted soft landing, with GDP expected to grow by 8.5% in 2005, 8.7% in 2006 and 8.9% in 2007. Manufacturing and construction, hampered by bottlenecks in energy and transportation, land constraints, and reduced levels of investment, will slow. The growth rate of industry overall is forecast at 9.3% - 10.1% over the three (3) years.

Investment in fixed assets is expected to grow by about 18% in 2005, slowing from 2004's rapid 25.8% expansion, and by about 13% in 2006 – 2007. Consumption will maintain double digit growth rates, but these will be significantly lower than the rates for investment. The growth rate of exports is forecast to fall to 12% - 20% in 2005 –2007 from over 30% in 2004, largely for the following reasons: growth in industrial nations will slow; major trade partners may well take more protectionist and antidumping action against the PRC exporters and rising labour costs and high oil prices will raise costs for exporters. Import growth is expected to outpace that of exports as more sectors are opened to foreign competitors and as domestic demand remain strong. Consequently, the trade surplus will decrease over the forecast period. Inflation is forecast to step down to 3.6% in 2005, 3.3% in 2006 and 3.2% in 2007.

(Source: Asian Development Outlook, 2005)

5.3 Textile Industry

A variety of fabrics are used worldwide in different applications such as apparel, household textiles and furnishings, medical equipment, industrial and technical products. It is predicted that global production will grow by 25% between 2002 and 2010, to reach more than 35 million tons and Asia is one of the key regions for growth. Textile manufacturers supplying regional and domestic apparel producers have survived by investing in technology. It allows them to achieve some of the highest productivity in the world. Innovative approach has helped manufacturers to differentiate their products and maintain an edge over competitors.

It is estimated that developing countries would have an income gain of about USD24 billion per year and export revenue gain of USD40 billion and employment generation of about 27 million jobs. Effective 1 January 2006, the textile sector will be reintegrated into the multilateral trading system. The elimination of textile quotas in 2005 has opened trade to fierce competition. It has also opened window opportunities for the countries which rely heavily on this particular sector.

(Source: www.teonline.com/textile-industry.html)

The PRC's textile exports increased sharply in the first two (2) months in 2005, rising 33% to USD5.21 billion according to the data released by the PRC's Ministry of Commerce. The growth mainly reflects a surge in sales of fabrics and made-ups while yarn exports only rose 5% from the same period last year to USD574 million.

(Source: www.emergingtextiles.com)

6. RISK FACTORS

(i) Change in control

Following the completion of the Proposed Restructuring Scheme, the Vendor (which is entirely owned by the Guanhong Principal Shareholders) is expected to emerge as the largest controlling shareholder of NewCo. The Vendor as the new controlling shareholder (and the Guanhong Principal Shareholders as the ultimate controlling shareholders) may introduce new Directors who will effectively determine the future business direction of NewCo. In this regard, the Guanhong Principal Shareholders will be able to influence the outcome of matters requiring the vote of NewCo's shareholders, unless they are required to abstain from voting by law and/or the relevant authorities.

(ii) Political, economic and regulatory risks

Changes in political, economic and regulatory conditions in the PRC, could materially and adversely affect the financial and business prospects of the Guanhong Group. Amongst the political, economic and regulatory uncertainties are the changes in political leadership, expropriation, nationalisation, re-negotiation or nullification of existing sales orders and contracts, interest rates, method of taxation and currency exchange rates.

While the Guanhong Group will seek to limit the impact of such risk to its business, there is no assurance that any change in the above factors will not have a material adverse effect on the business and operations of the Guanhong Group.

(iii) Business risks

The Guanhong Group's business activities are subjected to certain risks inherent in the textile industry. These may include changes in general economic conditions and political conditions, inflation, taxation, interest rates and exchange rates of foreign currencies and changes in business conditions such as, but not limited to, deterioration in prevailing market conditions, labour and material supply shortages and increase in costs of labour.

(iv) Competition

The Guanhong Group competes in a competitive industry where its success is dependent on its ability to increase market share and market presence within its target markets. The ability to compete depends upon many factors both internal and external, including stock availability, product distribution channels, pricing and customer service and support. The Guanhong Group's strategy is to constantly meet and improve on fulfilling customers' needs and requirements. Nevertheless, there can be no assurances that any changes in the competitive environment will not have a material effect on the Guanhong Group's businesses.

In addition, the PRC's entry into the WTO may lead to a relaxation of import restrictions and a lowering of import tariffs on various goods. The opening of the PRC market to foreign importers may bring about increased foreign competition. There is no assurance that such increased competition will not have any adverse impact on business and financial performance.

(v) Dependence on key personnel

The success of the Guanhong Group will depend to a significant extent upon the abilities and continued efforts of its current management team. The loss of any member of its management team may have an impact on the operations. The future success of the Guanhong Group will also depend upon its ability to attract and retain skilled personnel.

(vi) Laws and regulations of the PRC

The Guanhong Group's business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, regulations, circulars, administrative directives and internal guidelines. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether, and how, existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experinmental stage and are therefore subject to policy changes. Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited, and court decisions in the PRC do not have any binding effect on lower courts.

Accordingly, the outcome of dispute resolutions may not be as consistent or predictable as in the other jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a court or another jurisdiction.

(vii) Foreign exchange control of the PRC

The Guanhong Group is subject to the PRC rules and regulations on currency conversion. In the PRC, the State Administration for Foreign Exchange ("SAFE") regulates the conversion of the RMB into foreign currencies. Currently, foreign investment enterprises ("FIEs") like the Guanhong Group is required to apply to the SAFE for "Foreign Exchange Registration Certificates for FIEs". With such registration certification (which need to be renewed annually), FIEs are allowed to open foreign currency accounts including the "basic account" and "capital account". Currency translation within the scope of the "basic account" (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of the SAFE. However, conversion of currency in the "capital account" (e.g. for capital items like direct investments, loans, securities, etc.) still requires the approval of the SAFE. There can be no assurance that the current foreign exchange rulings will not be changed to the detriment of the Guanhong Group. In the event that the Guanhong Group intends to repatriate profits out of the PRC, there can be no assurance that will be able to obtain sufficient foreign exchange to pay dividends or to satisfy foreign exchange requirements.

7. EFFECTS OF THE PROPOSED RESTRUCTURING SCHEME

The proforma effects of the Proposed Restructuring Scheme on the share capital, net tangible assets, gearing and substantial shareholdings of Lityan and NewCo can only be determined upon finalisation of the terms of the Proposed Restructuring Scheme. A detailed announcement will be made in due course upon finalisation of the aforesaid terms.

The Proposed Restructuring Scheme is expected to contribute positively to the future earnings of Lityan via NewCo.

8. CONDITIONS OF THE PROPOSED RESTRUCTURING SCHEME

The Proposed Restructuring Scheme is subject to and conditional upon approvals from, amongst others, the following:-

(a) the SC;

(b) the SC (on behalf of FIC);

(c) BNM;

(d) Bursa Securities, for the admission to the Official List, the listing of and quotation for the entire enlarged issued and paid-up shares of NewCo to be issued and allotted pursuant to the Proposed Restructuring Scheme on the Main Board of Bursa Securities and the delisting of Lityan;

(e) the shareholders of Lityan;

(f) the sanction and confirmation of the High Court of Malaya;

(g) the creditors of Lityan; and

(h) other relevant authorities in Malaysia or elsewhere.

9. POLICIES ON FOREIGN INVESTMENT AND REPATRIATION OF PROFITS OF HOST COUNTRY

The policies on foreign investment and repatriation of profits of the countries in which the Guanhong Group operates are as follows:-

9.1 Hong Kong

Hong Kong does not have any foreign exchange controls. Neither is there any restriction on movements in capital investment as well as repatriation of capital and profits out of Hong Kong. However, dividends should only be paid out of retained net realised profits.

In practice, the length of time for repatriating funds out of Hong Kong depends on the time required in complying with the administrative procedures of the banking institutions involved.

9.2 PRC

The existing policy of the PRC provides that repatriation of profit received by a wholly foreign-owned enterprise can be made after payment of taxes and contributions to a reserve fund and the employee fund.

The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up. Kindly refer to Section 6(vii) above for further information on the foreign exchange control of the PRC.

10. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

To the best knowledge of the Directors and/or substantial shareholders of Lityan and persons connected to them, none of the Directors and/or substantial shareholders of Lityan and persons connected with them have any interest, direct or indirect, in the Proposed Restructuring Scheme.

11. ADVISER

Avenue has been appointed as adviser for the Proposed Restructuring Scheme.

12. OTHER MATTERS

An announcement in compliance with the relevant provisions of the SC's Policies and Guidelines on Issue/Offer of Securities and Listing Requirements of Bursa Securities will be made in due course upon the finalisation of the terms of the Proposed Restructuring Scheme and the execution of the definitive agreements for the Proposed Acquisition of Guanhong Group.

Barring any unforeseen circumstances, the Proposed Restructuring Scheme is expected to be completed within 12 months from the date of this announcement.

13. DOCUMENTS FOR INSPECTION

The Restructuring Agreement may be inspected at the registered office of Lityan at Bangunan C, Peremba Square, Saujana Resort, Section U2, 40150 Shah Alam, Selangor Darul Ehsan during normal business hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 29 July 2005.

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