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**GFT HOLDINGS LIMITED**

**真樂發控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(stock code: 1003)**

**MAJOR REALIZATION AND CONNECTED TRANSACTION  
AND  
RESUMPTION OF TRADING**

**Financial adviser to the Company**

***Hercules***

**Hercules Capital Limited**

**Independent Financial Adviser to the Independent Board Committee**

**VEDA | CAPITAL**  
**智略資本**

The Vendor, a subsidiary of the Company, has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase (i) the Sale Shares, representing the entire issued share capital of GFT Holding; and (ii) the rights of and benefits in the Sale Loan. The Disposal Group is principally engaged in the business of toy products trading and manufacturing. Subsequent to the Disposal, the Group will cease to engage in the toy manufacturing business and focus on trading of toy, gift and premium.

The Disposal constitutes a major transaction for the Company under the Listing Rules. As Mr. Leung and Mr. Wong, the beneficial owners and directors of the Purchaser, are also directors and substantial shareholders of the Company, the Disposal also constitutes a connected transaction for the Company under the Listing Rules. Accordingly, the Disposal is subject to the approval by the Independent Shareholders, by way of poll, at the SGM, in which Mr. Leung, Mr. Wong, Charm Management Limited (a substantial shareholder of the Company beneficially owned by Mr. Leung and Mr. Wong) and their respective associates will abstain from voting on the resolution approving the Disposal.

A circular containing, among other things, further details of the Disposal, the recommendation from the Independent Board Committee, the advice from the independent financial adviser on the Disposal and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 17 April 2007 pending the release of this announcement. An application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on 18 April 2007.

On 16 April 2007, the Vendor, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares and the Sale Loan at a total consideration of HK\$2.0. Details of the Disposal are shown as follows:

## THE AGREEMENT

**Date:** 16 April 2007

**Vendor:** the Vendor, a wholly-owned subsidiary of the Company

**Purchaser:** the Purchaser

The Purchaser is an investment holding company, which is beneficially owned as to 50% by Mr. Leung and 50% by Mr. Wong, both of whom are executive directors and substantial shareholders of the Company.

### Assets being disposed of:

1. The Sale Shares, representing the entire issued share capital of GFT Holding as at the date of the Agreement; and
2. The rights of and benefits in the Sale Loan. Based on the unaudited management account of GFT Holding as at 31 December 2006, which has been prepared in accordance with accounting principles generally accepted in Hong Kong, the Sale Loan amounted to approximately HK\$53.3 million.

GFT Holding was incorporated in the British Virgin Islands. It is an investment holding company and a major subsidiary of the Company. GFT Holding has five subsidiaries, which are principally engaged in the business of manufacturing and trading of toys. GFT Holding was acquired by the Group in September 2004 at a total consideration of HK\$5 million.

Based on the unaudited management accounts of GFT Holding, which have been prepared in accordance with accounting principles generally accepted in Hong Kong, the consolidated results and financial position of the GFT Holding for the two years ended 31 December 2006 were as follows:

	<b>For the year ended 31 December 2006 (unaudited) (HK\$'000)</b>	For the year ended 31 December 2005 (unaudited) (HK\$'000)
Revenue	<b>62,816</b>	65,629
(Loss)/Profit before taxation	<b>(26,477)</b>	12,145
(Loss)/Profit after taxation and minority interest	<b>(26,455)</b>	11,818

	<b>As at 31 December 2006 (unaudited) (HK\$'000)</b>	As at 31 December 2005 (unaudited) (HK\$'000)
Total assets	<b>88,918</b>	94,516
Total liabilities	<b>98,408</b>	78,156
Net (liabilities)/assets	<b>(9,490)</b>	16,360

### **Consideration:**

The total cash consideration for the Sale Shares and the Sale Loan is HK\$2.0, of which HK\$1.0 represents the consideration of the Sale Shares and the balance of HK\$1.0 represents the consideration of the Sale Loan. In the event that the consolidated management accounts of GFT Holding record net asset value as at the month end before the date of Completion, the total consideration will be adjusted to the sum equivalent to the said net asset value.

The consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the unaudited consolidated net liabilities of the Disposal Group as at 31 December 2006, the anticipated loss of the Disposal Group for the year ended 31 December 2006 and the period from 1 January 2007 up to the Completion, future prospect of the toy manufacturing business and the recoverability of the Sale Loan.

Given that (i) the Disposal Group has net liabilities and substantial losses for the financial year ended 31 December 2006; (ii) the future business prospect of the Disposal Group is uncertain; (iii) the corporate guarantee under the existing banking facilities granted to the Disposal Group will be released after the Disposal, the Directors consider that the consideration of HK\$1 for the Sale Shares is fair and reasonable.

As at 31 December 2006, the Disposal Group had net current liabilities and net liabilities of approximately HK\$63.5 million and HK\$9.5 million respectively. The Directors consider that the Disposal Group would be facing liquidity problem if no additional funding was obtained from the Group or external sources, and thus the possibility of having full recoverability on the Sale Loan is very remote. The Group would have to recognize an impairment loss for the Sale Loan even if the Sale Loan was not disposed of. In view of the above, the Directors consider that the consideration of HK\$1 for the Sale Loan is fair and reasonable.

### **Conditions Precedent:**

Completion is conditional upon fulfillment of the following conditions:

- a) the passing by the Independent Shareholders at the SGM of an ordinary resolution approving the Agreement and the transactions contemplated thereunder;
- b) the release by the banks of the obligations of the Company as a corporate guarantor under the existing banking facilities granted to the Disposal Group; and
- c) all necessary consents being granted by third parties (including governmental or official authorities) and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares and Sale Loan having been proposed, enacted or taken by any governmental or official authority.

The Purchaser may waive all or any of such conditions at any time by notice in writing to the Vendor. If the above conditions shall not have been fulfilled or waived prior to 30 September 2007 or such other day as the Vendor and the Purchaser shall agree, the Agreement and everything therein contained shall, subject to the liability of either party to the other in respect of any breach of the terms thereof be null and void and of no effect.

### **Completion:**

Completion shall take place on the second business day after the fulfillment of the above conditions (or other dates the Company and the Purchaser may agree).

### **REASONS FOR THE DISPOSAL**

The Group is principally engaged in the manufacturing and trading of toys and consumer products. Being adversely affected by the intensified price competition in the toy manufacturing industry, surge in material prices and production costs, unstable utilities supplies and labor shortage in Southern China, where the manufacturing plant of the Group is located, the profit margin of the Group's toy manufacturing business was severely eroded and losses from such business segment have been recorded since early 2006.

The Board expects that the unfavorable market conditions in the toy industry shall persist in the ensuing years. The Board also considers that the Disposal can prevent the Group from suffering further losses and cash outflow for the non-performing toy manufacturing business. In view of the declining results and the uncertain operating environment of the toy manufacturing business, the Board considers that it is appropriate and in the interests of the Group to terminate its loss-making business and to reallocate more resources of the Group on the trading of toy, gift and premium. Furthermore, as the Disposal is conditional upon the release by the banks of the obligations of the Company as a corporate guarantor under the existing banking facilities granted to the Disposal Group, the Disposal will reduce the contingent liability of the Group of approximately HK\$3.2 million. In light of the above, the Directors (including the independent non-executive directors) are of the opinion that the Disposal is in the interests of the Company and the Shareholders as a whole and the terms of the Agreement are fair and reasonable.

### **FINANCIAL EFFECT OF THE DISPOSAL**

The amount of gain or loss on disposal eventually to be recognized on the consolidated accounts of the Group depends on the net book value of the Disposal Group and the Sale Loan as at the date of Completion. Based on the unaudited net liabilities of the Disposal Group of approximately HK\$9.5 million as at 31 December 2006, it is expected that a gain on disposal of the Sale Shares of approximately HK\$9.5 million would be recognized in the consolidated accounts of the Company for the year ended 31 December 2006 should the disposal of the Sale Shares had been completed as of 31 December 2006.

On the other hand, based on the unaudited management account of the Disposal Group, the outstanding Sale Loan amounted to approximately HK\$53.3 million as at 31 December 2006. The disposal of the Sale Loan shall therefore give rise to a loss on impairment for the amount owing by the Disposal Group to the Vendor of approximately HK\$53.3 million. As a result, the Disposal is expected to result in a net loss of approximately HK\$43.8 million for the Group.

Given the existing financial position of the Disposal Group, the Directors believe that the recoverability of the Sale Loan would be low even if the Sale Loan was not disposed of to the Purchaser. Therefore, the Directors consider that the Disposal is in the interests of the Group and its Shareholders although the Group may recognize a non-recurring loss as a result of the Disposal.

The sale proceeds of the Disposal of HK\$2.0 will be used as the general working capital of the Group.

## **FUTURE PLAN OF THE GROUP**

Subsequent to the Completion, the Group will no longer hold any interest in GFT Holding and GFT Holding will cease to be a subsidiary of the Company. The Group will cease its toy manufacturing business and focus on the businesses of toy, gift and premium trading since then. The Group will also actively look for potential investment opportunity in order to diversify its business and enhance the value of the Group. As at the date of this announcement, the Group had no concrete investment plan.

## **LISTING RULES IMPLICATIONS**

The Disposal constitutes a major transaction for the Company under the Listing Rules. As Mr. Leung and Mr. Wong, the beneficial owners and directors of the Purchaser, are also executive directors and substantial shareholders of the Company, the Disposal also constitutes a connected transaction for the Company under the Listing Rules. Accordingly, the Disposal is subject to the approval by the Independent Shareholders, by way of poll, at the SGM, in which Mr. Leung, Mr. Wong, Charm Management Limited (a substantial shareholder of the Company beneficially owned by Mr. Leung and Mr. Wong) and their respective associates will abstain from voting on the resolution approving the Disposal. The Independent Board Committee has been constituted to advise the Independent Shareholders relating to the Agreement and the transactions contemplated thereunder. Veda Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in regards of the fairness and reasonableness of the terms of the Agreement.

## **GENERAL**

A circular containing, among other things, further details of the Disposal, the recommendation from the Independent Board Committee, the advice from the independent financial adviser on the Disposal and a notice of the SGM will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 17 April 2007 pending the release of this announcement. An application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on 18 April 2007.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Agreement”	the conditional sale and purchase agreement dated 16 April 2007 entered into between the Vendor and the Purchaser in relation to the sale and purchase of the Sale Shares and Sale Loan
“Board”	the board of the Directors

“Company”	GFT Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Stock Exchange
“Completion”	completion of the Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal by the Company of the Sale Shares and Sale Loan pursuant to the Agreement
“Disposal Group”	GFT Holding and its subsidiaries
“GFT Holding”	GFT Holding Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company as at the date of the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising the independent non-executive Directors, namely Mr. Chui Chi Yun, Robert, Mr. Lam Kowk Cheong and Mr. Lai Wing Leung, Peter, established for the purpose of advising the Independent Shareholders on the terms of the Agreement
“Independent Shareholders”	Shareholders other than Mr. Leung, Mr. Wong, Charm Management Limited and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Leung”	Mr. Leung Wai Ho, Chairman and an executive director of the Company
“Mr. Wong”	Mr. Wong Chung Shun, Vice Chairman and an executive director of the Company
“PRC”	the People’s Republic of China and for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	Innovative Sonic International Limited, a company incorporated in the British Virgin Islands. It is beneficially owned as to 50% by Mr. Leung and 50% by Mr. Wong.
“Sale Loan”	the total amount of loans or advances outstanding and owing from Great Force Technology Limited, one of the subsidiary of GFT Holding, to the Vendor as at the date of Completion

“Sale Shares”	640,000 ordinary shares of US\$1.00 each in the issued share capital of GFT Holding as at the date of the Agreement
“SGM”	the special general meeting of the Company to be convened to approve, among other things, the Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.025 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Prosper Overseas Limited, a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By Order of the Board  
**GFT HOLDINGS LIMITED**  
**Leung Wai Ho**  
*Chairman*

Hong Kong, 17 April 2007

*As at the date of this announcement, the Board comprises Mr. Leung Wai Ho, Mr. Wong Chung Shun and Mr. Ha Kee Choy, Eugene as executive directors and Mr. Chui Chi Yun, Robert, Mr. Lam Kwok Cheong and Mr. Lai Wing Leung, Peter as independent non-executive directors.*

*\* for identification purpose only*