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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Matrix Holdings Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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**MATRIX**  
**MATRIX HOLDINGS LIMITED**  
**美力時集團有限公司\***  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 1005)**

**DISCLOSEABLE TRANSACTION**

**DISPOSAL OF 100% ISSUED SHARE CAPITAL OF  
MAX SMART INVESTMENT LIMITED**

**Financial adviser to Matrix Holdings Limited**

  
**Optima Capital Limited**

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31 July 2008

\* For identification purpose only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“Affiliate(s)”	in relation to any person, any subsidiary or holding company of such person and any subsidiary of any such holding company and any company in which such person or any such holding company holds or control directly or indirectly not less than 20% of the issued share capital
“Agreement”	the agreement dated 26 June 2008 entered into between Matrix Investments and the Purchaser in relation to the Disposal
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Matrix Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Disposal in accordance with the Agreement
“Completion Date”	1 July 2008
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares by Matrix Investments to the Purchaser
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Keyhinge”	Keyhinge Holdings Limited, a company incorporated in Hong Kong with limited liability and was an indirect wholly-owned subsidiary of the Company as at the date of the Agreement
“Keyhinge Group”	Keyhinge and its subsidiary from time to time

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## DEFINITIONS

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“Latest Practicable Date”	29 July 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Matrix Investments” or “Vendor”	Matrix Investments Group Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company
“Max Smart”	Max Smart Investment Limited, a company incorporated in the British Virgin Islands, which was an indirect wholly-owned subsidiary of the Company as at the date of the Agreement
“Payables”	the payables owing and payable between the relevant members of the Target Group on the one part and Matrix Investments and/or the relevant Affiliate of Matrix Investments or of the Company on the other part as at 31 May 2008 of approximately HK\$142,661,000
“Payment Date”	the date falling 18 months after the Completion Date
“Payables of the Target Group”	the amounts of Payables owing and payable by the relevant members of the Target Group to Matrix Investments and/or relevant Affiliate of Matrix Investments or of the Company as at 31 May 2008 of approximately HK\$99,861,000
“Payables of the Vendor Affiliate”	the amounts of the Payables owing and payable by Matrix Investments and/or the relevant Affiliate of Matrix Investments or of the Company to the relevant members of the Target Group as at 31 May 2008 of approximately HK\$42,800,000
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this circular
“Purchaser”	Waterfront Investments Management Limited, a company incorporated in the British Virgin Islands
“Sale Shares”	10 shares of US\$1.00 each of Max Smart held by Matrix Investments as at the date of the Agreement

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Group”	Max Smart and the Keyhinge Group
“US\$”	US Dollars, the lawful currency of the United States of America
“Vietnam Company”	Keyhinge Toys Vietnam Joint Stock Company, a company incorporated in Vietnam and is principally engaged in the manufacture of gifts and novelties in Vietnam
“%”	per cent

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## LETTER FROM THE BOARD

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# MATRIX

## MATRIX HOLDINGS LIMITED

### 美力時集團有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1005)**

*Executive Directors:*

Mr. Cheng Yung Pun (*Chairman*)  
Mr. Arnold Edward Rubin (*Vice Chairman*)  
Mr. Yu Sui Chuen  
Ms. Cheng Wing See, Nathalie

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Independent non-executive Directors:*

Dr. Loke Yu alias Loke Hoi Lam  
Mr. Mak Shiu Chung, Godfrey  
Mr. Wan Hing Pui

*Principal place of business:*

Room No. 1008  
10th Floor, Tsim Sha Tsui Centre  
66 Mody Road  
Tsimshatsui East  
Kowloon, Hong Kong

31 July 2008

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTION**

### **DISPOSAL OF 100% ISSUED SHARE CAPITAL OF MAX SMART INVESTMENT LIMITED**

#### **INTRODUCTION**

Reference is made to the announcement of the Company dated 27 June 2008 in relation to the Disposal. On 26 June 2008, Matrix Investments, a direct wholly-owned subsidiary of the Company, as vendor, entered into the Agreement with the Purchaser. Pursuant to the Agreement, Matrix Investments agreed to sell to the Purchaser, and the Purchaser agreed to acquire from Matrix Investments, the Sale Shares, representing the entire issued share capital of Max Smart, for a cash consideration of HK\$1 million. Max Smart was an indirect wholly-owned subsidiary of the Company as at the date of the Agreement. Upon Completion which occurred on 1 July 2008, Max Smart ceased to be a subsidiary of the Company.

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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Max Smart is an investment holding company whose only asset is the entire interests in Keyhinge. Keyhinge, in turn, is an investment holding company which holds 98% of the equity interests in the Vietnam Company which engages in the manufacture of gifts and novelties in Vietnam.

As the applicable percentage ratios in relation to the Disposal represent 5% or more but less than 25% of calculations set out in Rule 14.07 of the Listing Rules, the Disposal constitutes a discloseable transaction for the Company pursuant to Rule 14.06(2) of the Listing Rules. The purpose of this circular is to provide you with information relating to, among the others, the Agreement and the Disposal.

### THE AGREEMENT

On 26 June 2008, Matrix Investments, a direct wholly-owned subsidiary of the Company, as vendor, entered into the Agreement with the Purchaser. Pursuant to the Agreement, Matrix Investments agreed to sell to the Purchaser, and the Purchaser agreed to acquire from Matrix Investments, the Sale Shares, representing the entire issued share capital of Max Smart, for a cash consideration of HK\$1 million. Upon Completion which occurred on 1 July 2008, Max Smart ceased to be a subsidiary of the Company. The principal terms of the Agreement are set out below.

#### Date

26 June 2008

#### Parties

- (1) Matrix Investments, as vendor
- (2) Waterfront Investments Management Limited, as Purchaser

The Purchaser is an investment holding company incorporated in the British Virgin Islands on 17 January 2008. Mr. Lo Kok Kee, who is the sole registered holder and ultimate beneficial owner of all shares in the Purchaser, is also the sole director of the Purchaser.

Apart from the Disposal, the Company has no prior transaction with the Purchaser and/or its associates in the past 12 months which would require aggregation with the Disposal under Chapter 14 of the Listing Rules.

The Directors confirm that to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company (as defined in the Listing Rules).

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## LETTER FROM THE BOARD

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### Assets to be disposed

The Sale Shares, being 10 shares of US\$1.00 each in Max Smart issued as fully paid-up, representing the entire issued share capital of Max Smart as at the date of the Agreement.

### Consideration

The consideration for the Disposal is HK\$1 million. The consideration was paid by the Purchaser in cash in full at Completion.

The consideration was determined after arm's length negotiations between Matrix Investments and the Purchaser. In arriving the consideration, the Directors have considered factors including (i) the unaudited consolidated net asset value of Max Smart as at 31 December 2007 and (ii) the future prospects of the toy manufacturing industry in Vietnam. The consideration represents a premium over the unaudited consolidated net asset value of Max Smart as at 31 December 2007. The Directors consider that the terms of the Agreement are fair and reasonable so far as the Company and the Shareholders are concerned and that the Disposal is in the interests of the Company and the Shareholders as a whole.

### Completion

Completion of the Agreement took place on the Completion Date.

### Post Completion settlement of outstanding accounts

The amounts owing between the relevant Affiliate of the Vendor and/or the Company and the relevant member of the Target Group as at 31 May 2008 are set out in the table below:

*Payables of the Affiliates of the Vendor and/or the Company*

	<b>Payor</b>	<b>Payee</b>	<b>Amount</b> <i>(HK\$)</i>
1.	Matrix Manufacturing Vietnam Company Limited, an indirect wholly-owned subsidiary of the Company	Vietnam Company	42,478,532.09
2.	Associated Manufacturing Vietnam Company Limited, an indirect wholly-owned subsidiary of the Company	Vietnam Company	321,651.46
		<b>Total</b>	<b><u>42,800,183.55</u></b>



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## LETTER FROM THE BOARD

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### *Payables of the Target Group*

	<b>Payor</b>	<b>Payee</b>	<b>Amount</b> <i>(HK\$)</i>
1.	Keyhinge	Keyhinge Enterprises (Macao Commercial Offshore) Company Limited, an indirect wholly-owned subsidiary of the Company	9,830,461.71
2.	Keyhinge	Matrix Investments	36,553,377.02
3.	Keyhinge	Matrix Resources Enterprise Limited, an indirect wholly-owned subsidiary of the Company	53,477,115.15
		<b>Total</b>	<u>99,860,953.88</u>

The Payables of the Target Group mainly consist of debts owing by the Target Group for (i) capital injection to the Vietnam Company, which amounted to HK\$34,565,093.80; (ii) a loan owing by the Target Group for the acquisition of the Keyhinge Group by Max Smart, which amounted to HK\$6,553,377.02; (iii) dividend payable to Matrix Investments for previous financial years, which amounted to HK\$30,000,000; and (iv) trade payables of the Target Group of HK\$28,742,483.06. The Payables of the Affiliates of the Vendor and/or the Company mainly consist of the purchase of the manufactured products from the Target Group. Save for the amount of HK\$2,990,488.17 paid by Matrix Manufacturing Vietnam Company Limited to the Vietnam Company up to 15 July 2008, no other Payables has been settled as at the Latest Practicable Date.

Matrix Investments and the Purchaser were aware of the respective payables owing between the Target Group and the Affiliates of the Vendor and/or the Company before the date of the Agreement. Matrix Investments and the Purchaser had also explored and considered whether any security could be provided by the Purchaser to the Group in relation to the repayment of the Payables of the Target Group before the Agreement was executed. However, after arm's length negotiations, Matrix Investments and the Purchaser has not reached any agreement on this issue.

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## LETTER FROM THE BOARD

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However, under the Agreement:

- (a) the Purchaser has agreed to indemnify and keep indemnified Matrix Investments and/or the relevant Affiliates of Matrix Investments or the Company against all losses, damages, costs and expenses which Matrix Investments and/or any of the Affiliates of Matrix Investments or the Company may suffer through or arising from or in relation to any of the Payables of the Target Group not being repaid in full on or before the Payment Date. On the other hand, under the Agreement, Matrix Investments has not given any equivalent indemnity or any security to the Purchaser in relation to any failure to repay the Payables of the Affiliates of the Vendor and/or the Company;
- (b) the Purchaser irrevocably undertakes to Matrix Investments that it shall procure the relevant members of the Target Group to make full payment of all the Payables of the Target Group to Matrix Investments and/or the relevant Affiliate of Matrix Investments or the Company on or before the Payment Date, to the intent and effect that all the Payables of the Target Group shall have been repaid in full on or before the Payment Date;
- (c) Matrix Investments also irrevocably undertakes to the Purchaser that it shall use its best endeavours to procure the relevant Affiliate of Matrix Investments or the Company to make full payment of all the Payables of the Affiliates of the Vendor and/or the Company to the relevant members of the Target Group on or before the Payment Date, to the intent and effect that all the Payables of the Affiliates of the Vendor and/or the Company shall have been repaid in full on or before the Payment Date; and
- (d) save and except for the Payables, Matrix Investments and the Purchaser agree that all other payables owing between the Purchaser and/or any members of the Target Group on one part and Matrix Investments and/or Affiliates of Matrix Investments or the Company on the other part shall be payable in accordance with the respective terms of contractual arrangement or agreement governing such other payables.

As the Purchaser will become the holding company of the Target Group after the Disposal and that the Purchaser is not a party to such Payables arrangements entered into between the Target Group and the Affiliates of the Vendor and/or the Company, as such, the Purchaser has given the aforesaid undertaking and indemnity to the Group.

The Directors consider that given the other terms and conditions of the Agreement are fair and reasonable for the reasons stated in the paragraph headed “Reasons for and benefits of the Disposal” below, this outcome is the best case scenario for the Company under the constraints of the commercial negotiations between the parties.

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## LETTER FROM THE BOARD

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The Board has assessed the recoverability of the Payables of the Target Group based on the Purchaser's extensive experiences and connection in the finance and business sectors which the Board believes will be favourable to the future business development of the Target Group. The Board believes that the Payables of the Target Group will be repaid by the Target Group from the future cashflow to be generated from its business operation on or before the Payment Date.

### INFORMATION ON THE TARGET GROUP

#### Max Smart

Max Smart is a company incorporated in the British Virgin Islands on 3 January 2008 and holds only the Keyhinge Group. It is an investment holding company and was an indirect wholly-owned subsidiary of the Company as at the date of the Agreement. Max Smart holds 100% equity interests in Keyhinge.

#### The Keyhinge Group

Keyhinge is a limited liability company incorporated in Hong Kong on 31 January 2000. It was an indirect wholly-owned subsidiary of the Company. Keyhinge is an investment holding company and holds 98% of the equity interests in the Vietnam Company, which is principally engaged in the manufacture of gifts and novelties in Vietnam. The Group acquired the then Keyhinge Group on 18 January 2002 at a consideration of HK\$26 million. The Keyhinge Group operates in the production plant in Danang City, Vietnam.

Max Smart was only incorporated in January 2008 and no audited accounts have been prepared since its incorporation. The unaudited consolidated financial statements of Max Smart (the "Unaudited Account") was prepared based on the unaudited consolidated balance sheet of the Keyhinge Group as at 31 December 2007 which was prepared in accordance with Hong Kong Financial Reporting Standards as if Max Smart had been incorporated on 31 December 2007 and Keyhinge had become the direct wholly-owned subsidiary of Max Smart on the same day.

### FINANCIAL INFORMATION OF THE TARGET GROUP AND THE KEYHINGE GROUP

The unaudited consolidated net asset value of Max Smart as at 31 December 2007 based on the Unaudited Account ("Unaudited 2007 NAV") was approximately HK\$78.

The unaudited consolidated total asset value of the Keyhinge Group as at 31 December 2007 amounted to approximately HK\$109.47 million. The Keyhinge Group recorded a net liabilities of approximately HK\$23.11 million as at 31 December 2007.

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## LETTER FROM THE BOARD

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Set out below are the unaudited consolidated financial information of the Keyhinge Group for the two financial years ended 31 December 2007:

	<b>For the financial year ended</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2007</b>	<b>2006</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit/(loss) before taxation and extraordinary items	11.63	4.83
Profit/(loss) after taxation and extraordinary items	10.13	4.82

As mentioned in the paragraph headed “Information on the Target Group” above, the Target Group comprises only Max Smart and the Keyhinge Group. Max Smart was only incorporated in January 2008. Accordingly, the net profits (both before and after taxation and extraordinary items) of the Target Group for the two financial years ended 31 December 2007 are the same as those of the Keyhinge Group which are disclosed above.

### **FINANCIAL EFFECTS OF THE DISPOSAL**

Upon Completion which occurred on 1 July 2008, the Company no longer had any shareholding interests in Max Smart. Max Smart ceased to be a subsidiary of the Company and the assets, liabilities and financial results of Max Smart will no longer be consolidated in the consolidated financial statements of the Company.

The net proceeds of approximately HK\$1 million generated from the Disposal would be used as general working capital of the Group.

It is estimated that there would be a gain on the Disposal of approximately HK\$1 million based on the consideration of the Disposal of HK\$1 million and the Unaudited 2007 NAV of approximately HK\$78.

### **REASONS FOR AND BENEFITS OF THE DISPOSAL**

The Group is principally engaged in the manufacture and distribution of gifts, novelties items and infant and pre-school children toys.

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## LETTER FROM THE BOARD

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As disclosed in the annual report of the Company for the year ended 31 December 2007, the Group operates three production plants – two in Danang City, Vietnam and one in Zhongshan, the PRC, with total production capacity of approximately 1.5 million units per day. The plant owned by the Target Group is the oldest amongst all the productions plants of the Company in Vietnam and has been in used for over 10 years and the machinery and equipment which it carries are relatively less efficient. Thus the Company considers that the Disposal will enable the Company to revamp and improve the overall toy manufacturing production capacity and efficiency of the Group as such will enable the Group to raise proceeds (from the Disposal and the repayment of the Payables of the Target Group) for investment in and upgrading of existing and new production plants. To cope with the development of the Group, the construction of the Group's third production plant in Danang City, Vietnam was completed in January 2008. The new production plant in Vietnam is designed to meet future customers' orders and increase the production capacity of the Group. In order to enhance the cost-effectiveness of production, the Group has strengthened its factory management by integrating and relocating the warehouse and plant operations. The Group invested in the latest technologies and machinery for toy manufacturing. With relatively more advanced technology and machinery in this new plant and the Disposal, it is expected that the overall production efficiency of the production plants owned by the Group in Vietnam will improve. In addition, the 'one-stop-shop' production line is planned to put in place in the new production plant in Vietnam so as to achieve the cost-effectiveness of production. As the Directors are optimistic on the future prospects of the toy manufacturing industry in Vietnam and in view of the above, the Directors consider that the disposal of the old production plant of the Group in Danang City, Vietnam would allow the Group to centralize its resources in order to further develop and upgrade its new production base in Vietnam and it is also in line with the continuous cost saving measures of the Group. The Directors are of the view that the Disposal would enable the Group to utilize its resources more efficiently and thus enhance the future growth in the toy manufacturing industry of the Group.

Although the Target Group recorded profits for the two financial years ended 31 December 2007, the revenues of the Target Group derived mainly from sales of products to other members of the Group. After the Disposal, the Company intends to channel its toy manufacturing orders through its other production plants (including the new production plant in Vietnam). Matrix Investments and the Purchaser therefore consider that the historical results of the Target Group do not reflect the projected profitability of the Target Group following Completion and thus had not taken into account of the historical results of the Target Group in determining the consideration for the Disposal. Given the improvement in the overall production capacity in the remaining production plants of the Group as explained above, the Group may be able to continue to generate profits within the post Disposal Group structure.

Having considered the terms of the Agreement and the above reasons and benefits, the Directors consider that the entering into of the Agreement and the Disposal at HK\$1 million are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully  
For and on behalf of the Board  
**Cheng Yung Pun**  
*Chairman*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

### Long position

#### *Ordinary share(s) of HK\$0.10 each in the share capital of the Company*

Name of Director/ Chief Executive	Nature of interests	Number of issued ordinary shares held of the Company	Percentage of the issued share capital
Cheng Yung Pun ( <i>Director</i> )	Corporate interest ( <i>Note</i> )	432,287,264	62.93%
Yu Sui Chuen ( <i>Director</i> )	Personal interest	668,000	0.10%
Cheng Wing See, Nathalie ( <i>Director</i> )	Personal interest	723,230	0.11%
Chen Wei Qing ( <i>Chief Executive Officer</i> )	Personal interest	1,100,000	0.16%

*Note:* The shares are held by Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands. The entire issued share capital of Suncorp is wholly-owned by Mr. Cheng Yung Pun.

*Share option*

<b>Grantee</b>	<b>Number of underlying shares attached to the share options outstanding as at the Latest Practicable Date</b>	<b>Exercise price HK\$</b>	<b>Exercise period</b>
Yu Sui Chuen ( <i>Director</i> )	2,922,000 ( <i>Note 1</i> )	2.340	27 January 2006 to 26 January 2009
Arnold Edward Rubin ( <i>Director</i> )	6,300,000 ( <i>Note 2</i> )	1.934	6 September 2007 to 6 September 2010
Total	<u>9,222,000</u>		

*Notes:*

- (1) Mr. Yu Sui Chuen, a Director, has beneficial interests in 2,922,000 underlying shares (representing 0.43% of the issued share capital of the Company as at the Latest Practicable Date) in respect of share options granted to him on 27 October 2005 pursuant to the Company's share option scheme.
- (2) Mr. Arnold Edward Rubin, a Director, has beneficial interests in 6,300,000 underlying shares (representing 0.92% of the issued share capital of the Company as at the Latest Practicable Date) in respect of share options granted to him on 8 June 2007 pursuant to the Company's share option scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which are required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code of the Listing Rules, to be notified to the Company and the Stock Exchange.



## 3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors or chief executive of the Company are aware, the interests or short position of the persons or corporations (other than a Director or chief executive of the Company) in the shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of any member of the Group and the amount of each of such person's interest in such securities or in any options in respect of such capital, were as follows:

**Long position***Ordinary share(s) of HK\$0.10 each in the share capital of the Company*

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Suncorp ( <i>Note 1</i> )	Beneficial owner	432,287,264	62.93%
Veer Palthe Voûte NV	Investment Manager	55,053,090	8.71%
Dresdner Bank Aktiengesellschaft ( <i>Note 2</i> )	Interest held by controlled corporations	55,053,090	8.71%
Allianz SE ( <i>Note 2</i> )	Interest held by controlled corporations	55,053,090	8.71%
Hang Seng Bank Trustee International Limited ( <i>Note 3</i> )	Trustee	60,346,000	8.96%
Cheah Company Limited ( <i>Note 3</i> )	Interest held by controlled corporations	60,346,000	8.96%
Cheah Capital Management Limited ( <i>Note 3</i> )	Interest held by controlled corporations	60,346,000	8.96%
Value Partners Group Limited ( <i>Note 3</i> )	Interest held by controlled corporations	60,346,000	8.96%
Value Partners Limited ( <i>Note 3</i> )	Investment Manager	60,346,000	8.96%
Cheah Cheng Hye ( <i>Note 4</i> )	Founder of discretionary trust	60,346,000	8.96%
To Hau Yin ( <i>Note 5</i> )	Spouse of Mr. Cheah Cheng Hye	60,346,000	8.96%

*Notes:*

- (1) Suncorp, a company incorporated in the British Virgin Islands, is wholly-owned by Mr. Cheng Yung Pun, a Director.
- (2) These shares are held by Veer Palthe Voûte NV, which is wholly-owned by Dresdner Bank Luxembourg S.A. Dresdner Bank Luxembourg S.A. is in turn wholly-owned by Dresdner Bank Aktiengesellschaft, which is owned as to 81.1% by Allianz Finanzbeteiligungs GmbH. Allianz Finanzbeteiligungs GmbH is wholly-owned by Allianz SE.
- (3) Value Partners Limited is wholly-owned by Value Partners Group Limited which in turn is owned as to 35.65% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly-owned by Cheah Company Limited which in turn is wholly-owned by Hang Seng Bank Trustee International Limited. Hang Seng Bank Trustee International Limited is a trustee of The C H Cheah Family Trust. Accordingly, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Hang Seng Bank Trustee International Limited and The C H Cheah Family Trust are deemed to be interested in all the shares in which Value Partners Limited is interested pursuant to the SFO.
- (4) Mr. Cheah Cheng Hye, the founder of The C H Cheah Family Trust, is deemed to be interested in 60,346,000 shares of the Company pursuant to the SFO.
- (5) Ms. To Hau Yin, being the wife of Mr. Cheah Cheng Hye is deemed to be interested in 60,346,000 shares of the Company pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors or chief executive of the Company are aware, no person has any interests or short position in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO (including interests and short position which they are taken or deemed to have under such provision of the SFO) or who is directly or indirectly interested in 10% per cent or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of any members of the Group.

#### **4. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business apart from the business of the Group which is considered to compete or is likely to compete, either directly or indirectly, with any business of the Group pursuant to the Listing Rules.

**5. DIRECTORS' SERVICE CONTRACTS**

An employment agreement was entered into between one of the indirect wholly-owned subsidiaries of the Company and Mr. Arnold Edward Rubin, an executive director and vice chairman of the Company, commencing from 8 June 2007 and continuing for a period of three years thereafter for his service as the president of such subsidiary.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed directors of the Company had any existing or proposed service contract with the Company or any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation other than statutory compensation.

**6. LITIGATION**

- 1) A judgement was made by the court in France against Funrise Toys Limited ("Funrise Toys"), an indirect wholly-owned subsidiary of the Company regarding the termination of an agency agreement. The amount awarded to the plaintiff by the court up to 31 December 2007 to be paid by the group company was approximately HK\$14,132,000. Funrise Toys has filed an appeal against the judgment. Funrise Toys also filed claims to the court against the plaintiff for the ownership of the "Funrise" trademark to be returned to the group company. There is no further progress in respect of the case after 31 December 2007 up to the Latest Practicable Date.

Based on the advice of the lawyers obtained by the management as at 15 April 2008, the outcome of the proceedings cannot be reasonably ascertained at this stage. Given that the former shareholders of Funrise Toys have indemnified Funrise Toys for any loss incurred for settling the legal claim using funds available from an escrow account which was funded by the proceeds receivable by the former shareholders of Funrise Toys from the Company for the sales of Funrise Toys, the management of the Group is of the opinion that the aforementioned claim would not result in any material adverse effects on the financial position of the Group.

- 2) Funrise Toys Limited brought an action against Alexandre Veron in the High Court of Hong Kong SAR for non-repayment of a loan extended to him (in his personal capacity) and for reimbursement of a loan payment to Fortis Bank, made on his behalf, by Funrise Toys Limited as guarantor. In this suit, which started in August 2002 before the Lyon Civil Court of First Instance (Tribunal de Grande Instance), the following amounts were claimed by Funrise Toys Limited against Alexandre Veron:
- (i) US\$70,000 for the principal amount of the loan made to Alexandre Veron;
  - (ii) US\$65,288.73 for interest due as at 31 December 2001;
  - (iii) HK\$1,552,848.77 for the payment made on behalf of Alexandre Veron to the Fortis Bank by Funrise Toys Limited as guarantor; and
  - (iv) €10,000 for lawyers' fees.

These claims were dismissed on 7 September 2006 by the Lyon Civil Court of First Instance because of the lack of evidence. The Court also allocated €3,500 for lawyers' fees to Alexandre Veron.

Since this judgment has not been officially served to Funrise Toys Limited in Hong Kong, no appeal has been introduced yet. The amount claimed by Funrise Toys Limited has been written off for book purposes and effectively remains a contingent gain should Funrise Toys Limited prevail on appeal. Funrise Toys Limited has obtained a court-ordered mortgage on the private residence of Alexandre Veron as security for any potential proceeds from this litigation matter on appeal. This measure remains valid until 25 July 2008.

- 3) On 2 November 2007, the Company and Matrix Resources Enterprise Limited, an indirect wholly-owned subsidiary of the Company, claimed HK\$14,000,000 compensation against a former chief executive officer of the Group for breach of contract. On 14 February 2008, this former chief executive officer counter claimed against the Company and such subsidiary for approximately HK\$15,167,000. As this case is at its early stage of the proceedings, the Directors, having sought legal advice on the case, believe that the aforementioned claim would not result in any material adverse effects on the financial position of the Group.

- 4) Groundswell Trading Limited (“Groundswell”), an indirect wholly-owned subsidiary of the Company, and Ms. Zhao Jian (趙健), a former employee of Groundswell’s representative office in Shenzhen, together with other 17 former employees of Groundswell’s representative office in Shenzhen (collectively the “18 employees”) were involved in a dispute arising from the termination of employment of the 18 employees of Groundswell’s representative office in Shenzhen. The 18 employees claimed the additional compensation under the PRC law notwithstanding agreements for mutual termination by all parties were executed. On 28 May 2008, 深圳市勞動爭議仲裁委員會 (the Labour Tribunal in Shenzhen, the PRC)\* ruled in favor of Groundswell except for a claim in a work over-time compensation of RMB39,624 and 25% of the economical compensation in the amount of RMB9,906, made by Ms. Zhao Jian (趙健) against Groundswell. The other 17 employees has filed with the court an appeal against Groundswell and Groundswell has also filed with the court an appeal against the decision of 深圳市勞動爭議仲裁委員會 (the Labour Tribunal in Shenzhen, the PRC)\* on the said claim made by Ms. Zhao Jian (趙健).

The Directors consider that the abovementioned amounts are insignificant and believe such decision will have no significant impact to the Group’s financial and operation position.

Save as disclosed, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

## 7. MISCELLANEOUS

- (a) The registered office of the Company is situated at Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is located at Room No. 1008, 10th Floor, Tsim Sha Tsui Centre, 66 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.
- (c) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Ms. Lai Mei Fong, who holds a master degree of business administration and is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrator.
- (e) The qualified accountant of the Company is Ms. Chan Yue Lam who is a certified public accountant of Hong Kong Institute of Certified Public Accountants.
- (f) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

\* for identification purpose only