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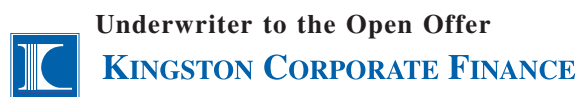
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If you have sold or transferred all your shares in RBI Holdings Limited ("Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, the licensed securities dealer or registered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

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.



PROPOSED OPEN OFFER OF NEW SHARES TO QUALIFYING SHAREHOLDERS ON THE BASIS OF FOUR OFFER SHARES FOR EVERY SHARE HELD ON THE RECORD DATE AND NOTICE OF SGM



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



Terms used in this cover page have the same meanings as defined in this circular.

A letter of advice from Guangdong Securities, to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 36 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 21 of this circular.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. These events are set out in the section headed "Termination of the Underwriting Agreement" in this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed.

A notice convening the SGM to be held at 9:00 a.m. on Thursday, 4 June 2009 at 7/F, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting to the office of the Company's branch registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting in person should you so wish.

19 May 2009

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EXPECTED TIMETABLE

The expected timetable for the Open Offer as set out below is indicative only and has been prepared on the assumption that the Open Offer will be approved by the Independent Shareholders at the SGM. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate:

2009

Despatch of this circular to the Shareholders.	Tuesday, 19 May
Last day of dealings in the Shares on a cum-entitlement basis.	Wednesday, 27 May
Commencement of dealings in the Shares on an ex-entitlement basis.	Friday, 29 May
Latest time for lodging transfer of the Shares in order to be qualified for the Open Offer	4:30 p.m. on Monday, 1 June
Register of members closes.	From Tuesday, 2 June to Thursday, 4 June
Record Date	Thursday, 4 June
SGM.	9:00 a.m. on Thursday, 4 June
Announcement of the results of the SGM	Thursday, 4 June
Register of members re-opens	Friday, 5 June
Despatch of the Prospectus Documents	Friday, 5 June
Latest Acceptance Time	4:00 p.m. on Friday, 19 June
Underwriting Agreement becomes unconditional	4:00 p.m. on Tuesday, 23 June
Announcement of the results of the Open Offer.	Thursday, 25 June
Certificates for the Offer Shares expected to be despatched on or before.	Friday, 26 June
Dealings in fully-paid Offer Shares expected to commence	Tuesday, 30 June

Note: All references to times and dates in this circular are reference to Hong Kong times and dates unless otherwise stated.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE

The Latest Acceptance Time will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
 - a “black” rainstorm warning
- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead the Latest Acceptance Time will be extended to 5:00 p.m. on the same business day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead the Latest Acceptance Time will be rescheduled to 4:00 p.m. on the following business day (other than Saturday) which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the Latest Acceptance Time does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected timetable” in this circular may be affected. An announcement will be made by the Company in such event.

DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

“Announcement”	the announcement of the Company dated 27 April 2009 in relation to the Open Offer
“Application Form(s)”	the application form(s) to be issued in connection with the Open Offer
“associate(s)”	has the same meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	RBI Holdings Limited (stock code: 566), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda (as amended from time to time)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Director(s)”	director(s) of the Company
“Excluded Shareholder(s)”	Overseas Shareholder(s), whom the Directors, based on legal opinions provided by the legal advisers, consider it necessary or expedient not to offer the Open Offer to such Shareholders on account either of the legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory bodies or stock exchanges in those places
“Group”	the Company and its subsidiaries
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a licensed corporation to carry out types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Board comprised of all the independent non-executive Directors, namely Mr. Kwong Kwan Ming, Mr. Wu Tak Lung, Mr. Leung Chi Kin and Mr. Chow King Lok, formed for advising the Independent Shareholders in relation to the Open Offer
“Independent Shareholders”	Shareholders other than the controlling shareholder (as defined in the Listing Rules) of the Company and its associates
“Last Trading Day”	27 April 2009, being the date of the Underwriting Agreement, which is a Stock Exchange trading day
“Latest Practicable Date”	14 May 2009, being the latest practicable date prior to the printing of this circular of ascertaining certain information in this circular
“Latest Acceptance Date”	Friday, 19 June 2009, or such other date as the Underwriter and the Company may agree, being the latest date for acceptance of, and payment for, the Offer Shares
“Latest Acceptance Time”	4:00 p.m. on Friday, 19 June 2009, or such other date and/or time as the Underwriter and the Company may agree, being the latest time for acceptance of, and payment for, the Offer Shares
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Lucky Tune”	Lucky Tune Global Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Tsui Ming, a non-executive Director
“Macau”	the Macau Special Administrative Region of the PRC
“Offer Shares”	635,610,848 new Shares to be allotted and issued under the Open Offer
“Open Offer”	the proposed offer for subscription of the Offer Shares at a price of HK\$0.10 per Offer Share by the Company to the Qualifying Shareholders on the basis of four Offer Shares for every Share held on the Record Date
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong

DEFINITIONS

“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus to be issued to the Shareholders containing details of the Open Offer
“Prospectus Documents”	the Prospectus and the Application Form(s)
“Prospectus Posting Date”	the date of posting the Prospectus Documents to Qualifying Shareholders
“Qualifying Shareholders”	Shareholders, other than the Excluded Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	Thursday, 4 June 2009, being the date by reference to which entitlements to the Open Offer are to be determined
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company convened to be held on Thursday, 4 June 2009 to consider and approve the Open Offer
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the SFO
“Underwriting Agreement”	the underwriting agreement dated 27 April 2009 entered into between the Company and the Underwriter in relation to the Open Offer
“Underwritten Shares”	being 635,610,848 Offer Shares, representing the total number of Offer Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter shall be entitled by notice in writing to the Company, served prior to 4:00 p.m. on 23 June 2009, to terminate the Underwriting Agreement if, prior to such time:

- (1) in the absolute opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (c) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
 - (d) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (e) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, this circular and the related proxy form or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or
- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Open Offer; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (3) this circular or the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer.

If the Underwriter gives a notice of termination to the Company in accordance with the terms of the Underwriting Agreement, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter any reasonable legal fees and other reasonable out-of-pocket expenses incurred by the Underwriter, except that the 2.5% underwriting fee shall not be payable to the Underwriter if the Underwriting Agreement does not become unconditional or if it is terminated by the Underwriter pursuant to the Underwriting Agreement. If the Underwriter exercises its right to terminate the Underwriting Agreement, the Open Offer will not proceed.

SUMMARY OF THE OPEN OFFER

The following information is derived from, and should be read in conjunction with, the full text of this circular.

Basis of the Open Offer:	Four Offer Shares for every Share held on the Record Date
Subscription Price:	HK\$0.10 per Offer Share payable in full upon acceptance
Number of Shares in issue as at the Latest Practicable Date:	158,902,712 Shares
Number of Offer Shares:	635,610,848 Offer Shares, representing 400% of the existing issued share capital of the Company and representing 80% of the issued share capital of the Company as enlarged by the issue of the Offer Shares
Enlarged issued share capital immediately upon completion of the Open Offer:	794,513,560 Shares
Amount to be raised by the Open Offer:	approximately HK\$63.6 million (before expenses)
Basis of entitlement:	<p>Offer Shares will be allotted in the proportion of four Offer Shares for every Share held by the Qualifying Shareholders on the Record Date. No Offer Shares will be offered to the Excluded Shareholders (if any) and will be taken up by the Underwriter.</p> <p>No arrangement for application for Offer Shares by Qualifying Shareholders in excess of their entitlements as described above.</p>

LETTER FROM THE BOARD



RBI Holdings Limited
紅發集團有限公司

(Stock code : 566)

(Incorporated in Bermuda with limited liability)

Executive Directors:

Mr. Chau Kai Man
Mr. Lee Kin Fai

Non-executive Director:

Mr. Tsui Ming

Independent non-executive Directors:

Mr. Kwong Kwan Ming
Mr. Wu Tak Lung
Mr. Leung Chi Kin
Mr. Chow King Lok

Registered office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

*Head office and principal place
of business in Hong Kong:*

7/F, Tower 1
South Seas Centre
75 Mody Road
Tsimshatsui East
Kowloon
Hong Kong

19 May 2009

To the Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF NEW SHARES TO
QUALIFYING SHAREHOLDERS ON
THE BASIS OF FOUR OFFER SHARES FOR
EVERY SHARE HELD ON THE RECORD DATE**

INTRODUCTION

As announced by the Company in the Announcement, the Company proposed to raise approximately HK\$63.6 million, before expenses, by way of the Open Offer of 635,610,848 Offer Shares at a subscription price of HK\$0.10 per Offer Share. The Company will offer for subscription of 635,610,848 Offer Shares in the proportion of four Offer Shares for every Share held by the Qualifying Shareholders on the Record Date.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Open Offer. Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information regarding the (i) details of the Open Offer; (ii) the recommendation of the Independent Board Committee in relation to the Open Offer; and (iii) a letter of advice from Guangdong Securities to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer and to give you notice of the SGM.

PROPOSED OPEN OFFER

Issue statistics

A summary of issue statistics of the Open Offer is set out in the section headed “Summary of the Open Offer” of this circular.

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

Pursuant to the Underwriting Agreement, the Company has undertaken that it shall not, without the prior consent of the Underwriter, issue any Shares or issue or grant any share options or other securities convertible into, exchangeable for or which carry rights to acquire Shares (other than the Offer Shares) from the date of the Underwriting Agreement until after the Latest Acceptance Time, being at 4:00 p.m. on Friday, 19 June 2009.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholder. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be an Excluded Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 1 June 2009.

The Company will send the Prospectus Documents to the Qualifying Shareholders only.

Excluded Shareholders

The Company will only send the Prospectus to the Excluded Shareholders for their information but will not send any Application Forms to them. The Excluded Shareholders who are also Independent Shareholders will be entitled to attend and vote at the SGM.

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda.

LETTER FROM THE BOARD

Based on the register of members of the Company as at the Latest Practicable Date, there was one Overseas Shareholder with a registered address in Macau (“**Macau Shareholder**”). Pursuant to Rule 13.36(2)(a) of the Listing Rules, the Board has made enquiries with its legal advisers in Macau as to whether there is any legal restriction under the applicable securities legislation of Macau or requirement of any relevant regulatory body or stock exchange with respect to the offer of Offer Shares to such Overseas Shareholder.

The Company has been advised by its legal advisers on the laws of Macau that the despatch of the Prospectus Documents and the extension of the Open Offer to the Macau Shareholder do not require any approval, consents of or registration with any authority in Macau and are not subject to any legal or regulatory restrictions imposed by the laws of Macau or the stock exchange in Macau. In view thereof, the Directors have decided to extend the Open Offer to the Macau Shareholder and such Macau Shareholder is a Qualifying Shareholder. The Company will send the Prospectus Documents to such Qualifying Shareholder.

In the event that there are as at the Record Date any Overseas Shareholders with registered addresses other than in Macau, the Company will consider the rights of such Overseas Shareholders and the relevant arrangements in respect of the Open Offer for them, including whether it is feasible to extend the Open Offer to such Overseas Shareholders. If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Offer Shares to such Overseas Shareholders, the Company would send the Prospectus, for information only, to such Overseas Shareholders but will not send the Application Forms to them.

On the basis that none of the Shareholders will change their respective registered addresses to other addresses and there will be no new Overseas Shareholders from the Latest Practicable Date up to and including the Record Date, there will not be any Excluded Shareholders for the purpose of the Open Offer.

Any Offer Shares which would otherwise be allotted to the Excluded Shareholders under the Open Offer will be taken up by the Underwriter.

Book closure period

For the purposes of determining the entitlement to the Open Offer and the attendance of the SGM, the register of members of the Company will close from Tuesday, 2 June 2009 to Thursday, 4 June 2009 (both dates inclusive). No transfer of Shares will be registered during this book closure period.

No transfer of nil-paid entitlements and no application for excess Offer Shares

The invitation to apply for Offer Shares will not be transferable and there will be no trading in nil-paid entitlements on the Stock Exchange.

LETTER FROM THE BOARD

There is no arrangement for application for Offer Shares by Qualifying Shareholders in excess of their entitlements. Considering that each Qualifying Shareholder will be given an equal and fair opportunity to participate in the Company's future development by subscribing for his/her/its proportionate entitlement under the Open Offer, if application for excess Offer Shares is arranged, the Company will be required to put in additional effort and costs to administer the excess application procedures, which is not cost-effective from the viewpoint of the Company. Any Offer Shares not taken up by the Qualifying Shareholders will be taken up by the Underwriter.

Subscription price

The subscription price for the Offer Shares is HK\$0.10 per Offer Share, payable in cash in full upon application. The subscription price represents:

- (i) a discount of approximately 86.11% to the closing price per Share of HK\$0.720 as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 86.23% to the average of the closing prices per Share of HK\$0.726 for the last 5 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iii) a discount of approximately 87.08% to the average of the closing prices per Share of HK\$0.774 for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iv) a discount of approximately 55.36% to the theoretical ex-entitlement price of HK\$0.224 per Share calculated based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (v) a discount of approximately 86.11% to the closing price of HK\$0.72 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The subscription price for the Offer Shares was determined after arm's length negotiations between the Company and the Underwriter with reference to the prevailing market conditions. As the Offer Shares are offered to all Qualifying Shareholders, the Directors would like to set the subscription price at a level that would attract the Qualifying Shareholders to participate in the Open Offer. The Directors (including the independent non-executive Directors) consider that the terms of the Open Offer, including the subscription price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares, when allotted, issued and fully paid, will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares. Dealings in the Offer Shares will be subject to payment of stamp duty in Hong Kong.

LETTER FROM THE BOARD

Certificates of the Offer Shares

Subject to the conditions of the Open Offer being fulfilled, share certificates for all fully-paid Offer Shares are expected to be posted on or before Friday, 26 June 2009 to those Shareholders who have validly applied and paid for the Offer Shares at their own risk.

Application for listing of the Offer Shares

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the fully paid Offer Shares. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty in Hong Kong, Stock Exchange trading fees, SFC transaction levy and other applicable fees and charges in Hong Kong.

Subject to the grant of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Fractional entitlements

No fractional entitlements or allotments are expected to arise as a result of the Open Offer.

Reasons for the Open Offer and use of proceeds

The Company was incorporated in Bermuda with limited liability. The principal business activities of the Group are engaged in (1) design, manufacture and sale of toys and (2) investment holding.

Due to the global economic downturn resulting from the United States sub-prime mortgage crisis and the global credit crunch which significantly weakened demand, the Group has been facing a difficult operating environment in 2008. For the year ended 31 December 2008, the Group recorded a loss attributable to the Shareholders of approximately HK\$55.7 million.

The estimated expense of approximately HK\$2.6 million in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses will be, borne by the Company. The Directors are of the view that the Open Offer would strengthen the financial position of the Group and enable the Group to expand its capital base. In addition, the Open Offer allows the Qualifying Shareholders to maintain their respective proportional shareholdings in the Company and participate in the future growth and development of the Company. The Directors (including the independent non-executive Directors) believe that the Open Offer is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The estimated net proceeds of the Open Offer is approximately HK\$61.0 million. The Board intends to apply the net proceeds for general working capital purposes as well as for future business development.

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

Date	:	27 April 2009
Underwriter	:	Kingston Securities Limited
Maximum number of Offer Shares being underwritten by the Underwriter	:	The Underwriter has conditionally agreed pursuant to the Underwriting Agreement to underwrite the Offer Shares not subscribed by the Shareholders on a fully underwritten basis being no more than 635,610,848 Offer Shares subject to the terms and conditions of the Underwriting Agreement
Commission	:	2.5% of the aggregate subscription price of the Underwritten Shares

The Directors are of the opinion that the terms of the Underwriting Agreement and the amount of commission given to the Underwriter are fair as compared to the market practice and commercially reasonable as agreed between the Company and the Underwriter.

As at the Latest Practicable Date, the Underwriter did not hold any Shares. Lucky Tune, a controlling Shareholder who is owned by Mr. Tsui Ming, a non-executive Director, has charged 63,891,160 Shares with Kingston Finance Limited, an associate of the Underwriter, as security for the loan provided by Kingston Finance Limited. To the best of the Directors' knowledge and information, save as disclosed above, the Underwriter and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

As at the Latest Practicable Date, the Board had not received any information or irrevocable undertakings from any substantial Shareholders of their intention to take up the securities of the Company to be offered to them under the Open Offer.

Conditions of the Open Offer

The Open Offer is conditional on, among other things, each of the following conditions being fulfilled:

- (i) the Company despatching this circular to the Shareholders containing, among other matters, details of the Open Offer together with proxy form and notice of the SGM;
- (ii) the passing of a resolution by the Independent Shareholders at the SGM to approve the Open Offer;

LETTER FROM THE BOARD

- (iii) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares (in their fully-paid forms);
- (iv) the filing and registration of all documents relating to the Open Offer, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance;
- (v) the filing of the Prospectus Documents with the Registrar of Companies in Bermuda;
- (vi) the posting of the Prospectus Documents to Qualifying Shareholders by the Prospectus Posting Date;
- (vii) the Bermuda Monetary Authority granting consent to the issue of the Offer Shares; (if required); and
- (viii) compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement.

Neither of the Company nor the Underwriter may waive the conditions (i) to (vii) above. The Underwriter may waive the condition (viii) in whole or in part by written notice to the Company.

If the above conditions are not satisfied and/or waived in whole or in part by the Underwriter by the Latest Acceptance Time or such later date or dates as the Underwriter may agree with the Company in writing, the Underwriting Agreement shall terminate and no party will have any claim against any other party for costs, damages, compensation or otherwise (save in respect of any reasonable legal fees or other reasonably out-of-pocket expenses, if any, of the Underwriter, or the indemnity given to the Underwriter and any rights or obligations which may accrue under the Underwriting Agreement prior to such termination).

Termination of the Underwriting Agreement

The Underwriter shall be entitled by notice in writing to the Company, served prior to 4:00 p.m. on 23 June 2009, to terminate the Underwriting Agreement if, prior to such time:

- (1) in the absolute opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

LETTER FROM THE BOARD

- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature (whether or not ejusdem generic with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (c) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
 - (d) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (e) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, this circular and the related proxy form or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or
- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) this circular or the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer.

If the Underwriter gives a notice of termination to the Company in accordance with the terms of the Underwriting Agreement, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter any reasonable legal fees and other reasonable out-of-pocket expenses incurred by the Underwriter, except that the 2.5% underwriting fee described above shall not be payable to the Underwriter if the Underwriting Agreement does not become unconditional or if it is terminated by the Underwriter pursuant to the Underwriting Agreement. If the Underwriter exercises its right to terminate the Underwriting Agreement, the Open Offer will not proceed.

LETTER FROM THE BOARD

WARNING OF THE RISKS OF DEALING IN THE SHARES

The Open Offer is conditional upon, among other things, the fulfillment of the conditions set out above under the sub-section headed “Conditions of the Open Offer” in the section headed “Underwriting arrangements” above. In addition, the Underwriter is entitled under the Underwriting Agreement to terminate the Underwriting Agreement on the occurrence of certain events as described under the sub-section headed “Termination of the Underwriting Agreement” in the section headed “Underwriting arrangements” above. Accordingly, the Open Offer may or may not proceed.

Any dealing in the Shares up to the date on which all the conditions of the Open Offer are fulfilled will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares are advised to consult their own professional advisers.

Shareholders should note that, based on the expected timetable, the Shares will be dealt in on an ex-entitlement basis commencing from Friday, 29 May 2009 and that dealing in Shares will take place even though the conditions under the Underwriting Agreement remain unfulfilled. Any Shareholder or other person dealing in the Shares from the date of the Announcement up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be at 4:00 p.m. on Tuesday, 23 June 2009) will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed.

CHANGES IN SHAREHOLDING STRUCTURE

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Open Offer			
	Number of Shares	Approximate %	Assuming all Qualifying Shareholders take up the Offer Shares in full		Assuming no Qualifying Shareholder takes up the Offer Shares	
			Number of Shares	Approximate %	Number of Shares	Approximate %
Lucky Tune <i>(Note)</i>	63,891,160	40.21	319,455,800	40.21	63,891,160	8.04
Public Shareholders	95,011,552	59.79	475,057,760	59.79	95,011,552	11.96
The Underwriter	—	0.00	—	0.00	635,610,848	80.00
Total	<u>158,902,712</u>	<u>100.00</u>	<u>794,513,560</u>	<u>100.00</u>	<u>794,513,560</u>	<u>100.00</u>

Note: Lucky Tune is wholly owned by Mr. Tsui Ming, a non-executive Director.

LETTER FROM THE BOARD

In the event of the Underwriter being called upon to subscribe for or procure subscribers of any of the Underwritten Shares:

- (1) the Underwriter shall not subscribe, for its own account, for such number of the Underwritten Shares not taken up which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 30% of the then issued share capital of the Company; and
- (2) the Underwriter shall ensure that none of the subscribers of the Underwritten Shares will become a substantial shareholder (as defined in the Listing Rules) of the Company as a result of such subscription.

PREVIOUS FUND-RAISING EXERCISE OF THE COMPANY

Set out below is the equity fund-raising activity of the Company in the past 12 months immediately preceding the date of the Announcement.

Nature of transaction	Date of agreement	Date of initial announcement	Net proceeds	Intended use of net proceeds as announced	Actual use of net proceeds
Subscription of 66,000,000 new shares of HK\$0.10 each	23 May 2008	26 May 2008	Approximately HK\$33.9 million	Construction of phase II of Heyuan factory and general working capital	Substantially utilized as intended

FINANCIAL AND TRADING PROSPECT OF THE GROUP

The principal business activities of the Group are engaged in (1) the manufacture, design and sale of toys and (2) investment holding.

In order to maintain a competitive edge under this tough economic environment, the Group has conducted an internal restructuring in 2008. The Group has vigorously downsized the Shenzhen factories and gradually shifted its operations to Dongguan and Heyuan. Meanwhile, the Dongguan office has been established as the new manufacturing head office in China. The move is aimed to consolidate and reorganize the resources of the Group so as to maximize the production capacity of the Dongguan and Heyuan factories.

The Group will continue to streamline and centralize its manufacturing operations with an aim to maintaining a lean and competitive production platform in China. Furthermore, in order to maintain a competitive edge in the toy industry, the Group has decided to implement a new ERP (Enterprise Resource Planning) computer system in stages from April 2009. The implementation of ERP aims to enhance the Group's efficiency and productivity.

LETTER FROM THE BOARD

Although the global business climate is expected to remain difficult throughout 2009, the Group believes that its program to improve the operation efficiency and experienced management team will allow the Group to navigate these tough times while building toward a positive prospect in the future. On the other hand, the management will keep on aggressively looking for toy related or other investment opportunities to strike for best interest of the Shareholders.

SGM

The SGM will be held at 9:00 a.m. on Thursday, 4 June 2009 at 7/F, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong, the notice of which is set out on pages SGM 1 to SGM 2 of this circular, to consider and, if thought fit, approve the Open Offer.

In compliance with the Listing Rules, the resolution to be proposed at the SGM will be voted on by way of a poll.

You will find enclosed a form of proxy for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting to the office of the Company's branch registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional on approval by Independent Shareholders at the SGM and any controlling Shareholders and their associates shall abstain from voting in favour of the relevant resolution relating to the Open Offer. As at the Latest Practicable Date, Lucky Tune, who held 63,891,160 Shares representing approximately 40.21% of the issued share capital of the Company, was the controlling Shareholder of the Company and therefore, Lucky Tune and its associates shall abstain from voting in favour of the resolution to approve the Open Offer at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder (other than Lucky Tune) is required to abstain from voting on the proposed resolution approving the Open Offer at the SGM. As at the Latest Practicable Date, the Company did not receive notice from Lucky Tune of its intention to vote against the proposed resolution approving the Open Offer at the SGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors believe that the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM. You are advised to read carefully the letter from the Independent Board Committee regarding the Open Offer on page 21 of this circular. The Independent Board Committee, having taken into account the advice of Guangdong Securities, the text of which is set out on pages 22 to 36 of this circular, considers that (i) the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Open Offer is in the interests of the Company and the Shareholders as a whole.

FURTHER INFORMATION

Your attention is drawn to the information set out in the appendices to this circular

On behalf of the Board

Chau Kai Man

Chairman

LETTER FROM INDEPENDENT BOARD COMMITTEE

The following is the full text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent Shareholders in relation to the Open Offer:



19 May 2009

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER OF NEW SHARES TO QUALIFYING SHAREHOLDERS ON THE BASIS OF FOUR OFFER SHARES FOR EVERY SHARE HELD ON THE RECORD DATE

We refer to the “Letter from the Board” set out in the circular dated 19 May 2009 (“**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Open Offer and to advise the Independent Shareholders as to the fairness and reasonableness of the Open Offer and to recommend whether or not the Independent Shareholders should vote for the resolution to be proposed at the SGM to approve the Open Offer. Guangdong Securities has been appointed to advise the Independent Board Committee in relation to the terms of the Open Offer.

We wish to draw your attention to the letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Open Offer as set out in the Circular. We also draw your attention to the Letter from the Board.

Having taken into account the principal factors and reasons considered by and the opinion of Guangdong Securities as stated in its letter of advice, we consider (i) the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Open Offer is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution approving the Open Offer to be proposed at the SGM.

Yours faithfully,
Independent Board Committee

Mr. Kwong Kwan Ming
Mr. Leung Chi Kin

Mr. Wu Tak Lung
Mr. Chow King Lok

Independent non-executive Directors

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer for the purpose of inclusion in this circular.



Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

19 May 2009

*To: The independent board committee and the independent shareholders
of RBI Holdings Limited*

Dear Sirs,

PROPOSED OPEN OFFER OF NEW SHARES TO QUALIFYING SHAREHOLDERS ON THE BASIS OF FOUR OFFER SHARES FOR EVERY SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 19 May 2009 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 27 April 2009, the Board proposed to raise approximately HK\$63.6 million, before expenses, by way of the Open Offer of 635,610,848 Offer Shares at a subscription price of HK\$0.10 per Offer Share (the “**Subscription Price**”). The Company will offer for subscription of such 635,610,848 Offer Shares in the proportion of four Offer Shares for every Share held by the Qualifying Shareholders on the Record Date while the Open Offer is not available to the Excluded Shareholders.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to subscribe for or procure subscribers for the Underwritten Shares. Accordingly, the Open Offer is fully underwritten.

LETTER FROM GUANGDONG SECURITIES

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional on approval by the Independent Shareholders at the SGM whereby any controlling shareholders (as defined in the Listing Rules) of the Company and their associates shall abstain from voting in favour of the relevant resolution(s) approving the Open Offer. Lucky Tune, being the controlling shareholder of the Company, together with its associates shall therefore abstain from voting in favour of the relevant resolution to approve the Open Offer at the SGM.

An Independent Board Committee comprising Mr. Kwong Kwan Ming, Mr. Wu Tak Lung, Mr. Leung Chi Kin and Mr. Chow King Lok (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Open Offer is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Open Offer at the SGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

LETTER FROM GUANGDONG SECURITIES

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Underwriter or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Open Offer. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Open Offer, we have taken into consideration the following principal factors and reasons:

Information on the Group

As referred to in the Board Letter, the principal business activities of the Group are (i) design, manufacture and sale of toys; and (ii) investment holding.

Tabularised below is a summary of the audited consolidated financial information on the Group for the three years ended 31 December 2008 as extracted from the Company's annual reports for the years ended 31 December 2008 (the "2008 Annual Report") and 31 December 2007 respectively:

	For the year ended 31 December 2008 <i>HK\$'000</i>	For the year ended 31 December 2007 <i>HK\$'000</i>	For the year ended 31 December 2006 <i>HK\$'000</i>	% change from 2007 to 2008
Turnover	511,810	525,902	550,154	(2.68)
Gross profit	61,650	109,656	129,514	(43.78)
(Loss)/Profit attributable to Shareholders	(55,677)	19,954	30,307	N/A
	As at 31 December 2008 <i>HK\$'000</i>	As at 31 December 2007 <i>HK\$'000</i>	As at 31 December 2006 <i>HK\$'000</i>	% change from 2007 to 2008
Net assets value ("NAV")	382,637	395,390	503,959	(3.23)
Total borrowings	Nil	40,000	Nil	N/A
Total assets	452,279	505,315	583,285	(10.50)
Total liabilities	69,642	109,925	79,326	(36.65)
Gearing ratio	0.15	0.22	0.14	(31.82)

LETTER FROM GUANGDONG SECURITIES

As depicted by the above table, the Group's total turnover had been shrinking since the year ended 31 December 2006. The Group's profitability also followed the same declining pattern until the 2008 financial year when the Group recorded a loss attributable to Shareholders of approximately HK\$55.68 million. We noted from the 2008 Annual Report that the said loss was mainly due to the decrease in gross profit margin and the increase in administrative expenses of the Group during the 2008 financial year. As also referred to in the 2008 Annual Report, the gross profit margin of the Group for the year ended 31 December 2008 was adversely affected by the jump in operating cost, which was primarily resulted from the appreciation in RMB, the increase in staff cost and together with the tougher testing requirements for the Group's products.

According to the 2008 Annual Report, the Group will continue to streamline and centralise its manufacturing operations in Dongguan and Heyuan factories with an aim of maintaining a lean and competitive production platform in the PRC. Moreover, the management of the Company will continue to look for toys-related or other investment opportunities to strike for the best interest to the Shareholders.

Regarding the assets and liabilities position of the Group, as illustrated by the above table, the Group's NAV was approximately HK\$382.64 million as at 31 December 2008 and the Group did not have any borrowings as at 31 December 2008. Furthermore, the gearing level of the Group (calculated as total liabilities over total assets of the Group) was approximately 0.15 times as at 31 December 2008. As extracted from the indebtedness statement of the Group as at 31 March 2009 (details of which are contained in Appendix I to the Circular), the Group did not have any loan capital issued and outstanding or agreed to be issued, other borrowings or indebtedness in the nature of borrowings, mortgages, charges, guarantees or material contingent liabilities.

With the above being the case, the Directors are of the view that it would be in the interests of the Company and the Shareholders as a whole to (i) further strengthen the financial position and the capital base of the Group through the Open Offer; and (ii) maintain the existing debt-free and the low gearing position of the Group.

Reasons for the Open Offer and other financing alternatives available to the Group

We noted from the Board Letter that save as and except for the subscription of 66,000,000 new Shares as announced by the Company on 26 May 2008, the Group had not carried out other equity fund raising activities during the past 12 months immediately prior to the date of the Announcement.

As extracted from the Board Letter, the Directors are of the view that the Open Offer would strengthen the financial position of the Group and enable the Group to expand its capital base. In addition, the Open Offer allows the Qualifying Shareholders to maintain their respective proportionate shareholdings in the Company and participate in the future growth and development of the Company. Accordingly, the Directors believe that the Open Offer is in the interests of the Company and the Shareholders as a whole.

LETTER FROM GUANGDONG SECURITIES

As also extracted from the Board Letter and further confirmed by the Directors, the Company will apply the estimated net proceeds from the Open Offer of approximately HK\$61.0 million for general working capital purpose as well as for the Group's future business development, such as the exploration of toys-related and other investment opportunities.

In order to understand the reasons for the Open Offer in further depth, we have enquired into the Directors and the Directors confirmed that the Group would usually consider debt financing and equity financing for capital requirements. In relation to debt financing, as aforementioned, the Group's gearing level was approximately 0.15 times as at 31 December 2008. The Directors confirmed that the Company prefers not to increase the debt liabilities of the Group (if possible) such that the gearing level of the Group may be maintained at the existing low level under the current uncertain market condition and global financial downturn. Due to this reason, the Directors consider debt financing to be less favourable to the Group. Since there are also shortcomings in new shares placing, for example, the shareholdings of the existing Shareholders in the Company would be diluted, as compared with an open offer, the Directors have decided to conduct the Open Offer to obtain additional funding for the Group.

Taking into account (i) the historical financial performance and future business strategy of the Group as outlined under the section headed "Information on the Group" of this letter; (ii) the reasons for the Open Offer; and (iii) the shortcomings of other financing alternatives as compared with an open offer which are represented by the Directors, we concur with the Directors that the Open Offer is a feasible financing method currently available to the Group and is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Open Offer and the Underwriting Agreement

Major terms of the Open Offer

The table below summarises the major terms of the Open Offer:

Basis of the Open Offer:	Four Offer Shares for every Share held on the Record Date
Subscription Price:	HK\$0.10 per Offer Share
Number of Shares in issue as at the Latest Practicable Date:	158,902,712 Shares
Number of Offer Shares:	635,610,848 Offer Shares

LETTER FROM GUANGDONG SECURITIES

The Subscription Price of HK\$0.10 per Offer Share represents:

- (i) a discount of approximately 86.11% to the closing price of HK\$0.720 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 86.11% to the closing price per Share of HK\$0.720 as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 86.23% to the average of the closing prices per Share of HK\$0.726 for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iv) a discount of approximately 87.08% to the average of the closing prices per Share of HK\$0.774 for the last ten trading days as quoted on the Stock Exchange up to and including the Last Trading Day; and
- (v) a discount of approximately 55.36% to the theoretical ex-entitlement price of HK\$0.224 per Share calculated based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Day (the “**Theoretical Ex-entitlement Price**”).

The Directors confirmed that the Subscription Price was determined after arm’s length negotiations between the Company and the Underwriter with reference to the prevailing market conditions. As the Offer Shares are offered to all Qualifying Shareholders, the Directors would like to set the Subscription Price at a level that would attract the Qualifying Shareholders to participate in the Open Offer. In this regard, the Directors are also of the opinion that the substantial discount of the Subscription Price would encourage the Qualifying Shareholders to participate in the Open Offer and to maintain their respective shareholding interests in the Company, thereby sharing in the Group’s potential prospects.

Analyses on the Subscription Price

To assess the fairness and reasonableness of the Subscription Price, we set out the following informative analyses for illustrative purpose:

LETTER FROM GUANGDONG SECURITIES

(i) Review on Share prices

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 1 April 2008 up to and including the Last Trading Day (the “**Review Period**”) are shown as follows:

Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)	No. of trading days in each month
2008				
April	1.875	1.725	1.776	21
May (<i>Note</i>)	3.000	1.500	2.016	19
June	3.400	2.600	2.953	20
July	3.150	2.450	2.811	22
August	2.800	1.750	2.259	19
September	2.250	1.500	1.924	21
October	2.200	1.500	1.917	21
November	2.450	1.245	1.754	20
December	1.450	1.245	1.280	21
2009				
January	1.250	0.980	1.064	18
February	1.150	1.015	1.032	20
March	1.100	0.625	0.939	22
April (up to and including the Last Trading Day)	0.865	0.610	0.716	17

Source: the Stock Exchange web-site (www.hkex.com.hk)

Note: Trading in the Shares was suspended on 26 May 2008.

During the Review Period, the average daily closing price of the Shares ranged from HK\$0.716 to HK\$2.953 per Share in each month and followed a general downward moving trend since May 2008. The lowest and highest closing prices of the Shares as quoted on the Stock Exchange (the “**Lowest Closing Price**” and the “**Highest Closing Price**” respectively) were HK\$0.61 per Share recorded on 3 April 2009 and 6 April 2009 and HK\$3.40 per Share recorded on 26 June 2008. The Highest Closing Price hence represented a substantial premium of approximately 457.38% over the Lowest Closing Price.

LETTER FROM GUANGDONG SECURITIES

(ii) Review on trading liquidity of the Shares

The average daily number of Shares traded per month, and the respective percentages of the Shares' monthly trading volume during the Review Period as compared to (i) the total number of issued Shares held by the public as at the Last Trading Day; and (ii) the total number of issued Shares as at the Last Trading Day are tabulated as follows:

Month	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares held by the public as at the Last Trading Day <i>(Note 2)</i> %	% of the Average Volume to total number of Shares issued as at the Last Trading Day <i>(Note 3)</i> %	No. of trading days in each month
2008				
April	6,000	0.01	0.00	21
May <i>(Note 1)</i>	4,847,874	5.10	3.05	19
June	4,713,880	4.96	2.97	20
July	3,855,227	4.06	2.43	22
August	1,710,000	1.80	1.08	19
September	4,265,905	4.49	2.68	21
October	3,654,571	3.85	2.30	21
November	6,377,400	6.71	4.01	20
December	117,143	0.12	0.07	21
2009				
January	91,111	0.10	0.06	18
February	32,500	0.03	0.02	20
March	1,329,610	1.40	0.84	22
April (up to and including the Last Trading Day)	1,978,588	2.08	1.25	17

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

- Trading in the Shares was suspended on 26 May 2008.
- Based on 95,011,552 Shares held in public hands as at the Last Trading Day.
- Based on 158,902,712 Shares in issue as at the Last Trading Day.

LETTER FROM GUANGDONG SECURITIES

The above table illustrates that the average daily trading volume of the Shares per month was thin during the Review Period. Save as and except for May 2008 and November 2008, the trading average of the Shares was below 5% of the total number of issued Shares held by the public as at the Last Trading Day. As such, the Shares were rather illiquid in the open market. In light of the inactive trading of the Shares together with the downward moving trend of the market price of the Shares during the Review Period, we concur with the Directors that it would be less attractive to encourage the Qualifying Shareholders to participate in the Open Offer unless the Subscription Price was set at relatively substantial discount to the market prices of the Shares. Accordingly, we are of the view that the substantial discount of the Subscription Price is justifiable.

(iii) Comparison with other open offers

As part of our analyses, we have identified those open offer transactions from 1 November 2008 up to the Last Trading Day conducted by companies listed on the Stock Exchange (the “**Comparables**”). To the best of our knowledge and as far as we are aware of, we found 15 companies which met these criteria. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables and thus the Comparables are only used to provide a general reference for the common market practice in open offer transactions of companies listed in Hong Kong. Summarised below are our relevant finding:

Date of announcement	Company name (Stock code)	Basis of allotment	Premium/ (Discount) of the subscription price over/(to) the theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective open offer		Underwriting commission (Note) %
			Premium/ (Discount) of the subscription price over/(to) the closing price per share on the last trading day prior to announcement in relation to the respective open offer %	Premium/ (Discount) of the subscription price over/(to) the theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective open offer %	
18 November 2008	Dore Holdings Ltd. (628)	1 for 2	104.00	52.00	2.0
19 November 2008	China Botanic Development Holdings Ltd. (2349)	1 for 2	(15.79)	(11.11)	0
28 November 2008	Golife Concepts Holdings Ltd. (8172)	2 for 5	(18.03)	(4.92)	1.0

LETTER FROM GUANGDONG SECURITIES

Date of announcement	Company name (Stock code)	Basis of allotment	Premium/ (Discount) of the subscription price over/(to) the theoretical	Premium/ (Discount) of the subscription price over/(to) the closing price per share on the last trading day prior to announcement	Premium/ (Discount) of the subscription price over/(to) the closing price per share on the last trading day prior to announcement	Underwriting commission (Note) %
			ex-entitlement price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective open offer %	ex-entitlement price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective open offer %	ex-entitlement price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective open offer %	
4 December 2008	Brilliant Arts Multi-Media Holding Ltd. (8130)	9 for 1	(87.30)	(40.74)		Information not available
10 December 2008	China Overseas Land & Investment Ltd. (688)	1 for 25	(34.00)	(33.00)		2.5
10 December 2008	Solartech International Holdings Ltd. (1166)	4 for 1	(51.00)	(17.00)		2.5
15 January 2009	Royale Furniture Holdings Ltd. (1198)	1 for 2	(20.60)	(14.80)		2.5
20 January 2009	Global Green Tech Group Ltd. (274)	12 for 25	(31.50)	(33.00)		3.5
21 January 2009	Hembly International Holdings Ltd. (3989)	1 for 2	(13.00)	(9.10)		2.5
20 February 2009	Tidetime Sun (Group) Ltd. (307)	1 for 2	(17.70)	(12.16)		Information not available
13 March 2009	The Sun's Group Ltd. (988)	2 for 5	(1.49)	(1.05)		0
24 March 2009	Sun Innovation Holdings Ltd. (547)	5 for 1	(79.73)	(40.00)		2.0

LETTER FROM GUANGDONG SECURITIES

Date of announcement	Company name (Stock code)	Basis of allotment	Premium/ (Discount) of the subscription price over/(to) the theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective open offer		Underwriting commission (Note)
			%	%	%
8 April 2009	Computech Holdings Ltd. (8081)	1 for 2	(57.41)	(47.00)	3.0
16 April 2009	Heng Tai Consumables Group Ltd. (197)	1 for 2	(60.90)	(51.00)	2.5
23 April 2009	Golife Concepts Holdings Ltd. (8172)	8 for 1	(60.00)	(14.53)	Information not available
Minimum			(87.30)	(51.00)	0
Maximum			104.00	52.00	3.5
Average			(29.63)	(17.88)	2.0
Median			(31.50)	(14.53)	2.5
27 April 2009	The Company	4 for 1	(86.11)	(55.36)	2.5

Source: the Stock Exchange web-site (www.hkex.com.hk) and the relevant open offer announcements

Note: For use under the section headed “The Underwriting Agreement” of this letter.

As shown by the above table, the subscription prices of the Comparables ranged from discount of approximately 87.30% to premium of approximately 104.00% to/over the respective closing prices of their shares on the last trading days prior to the release of the open offer announcements (the “**LTD Market Range**”). The discount of approximately 86.11% as represented by the Subscription Price to the closing price of the Shares on the Last Trading Day hence falls within the LTD Market Range.

LETTER FROM GUANGDONG SECURITIES

Moreover, the subscription prices of the Comparables ranged from discount of approximately 51.00% to premium of approximately 52.00% to/over the respective theoretical ex-entitlement prices of their shares on the last trading days prior to the release of the open offer announcements (the “**TEEP Market Range**”). The discount of approximately 55.36% as represented by the Subscription Price to the Theoretical Ex-entitlement Price hence is slightly deeper than the lower end of the TEEP Market Range.

Given the above analysis and (i) the general downward moving trend of the market price of the Shares during the Review Period; (ii) the low trading liquidity of the Shares during the Review Period; (iii) the need of new capital for the Group’s general working capital and future business development; and (iv) that a lower subscription price may likely to attract more Qualifying Shareholders to participate in the Open Offer and share in the Group’s potential prospects, we concur with the Directors that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

The Underwriting Agreement

The Underwriting Agreement was entered into between the Company and the Underwriter on 27 April 2009. As at the Latest Practicable Date, the Underwriter did not hold any Shares. With reference to the Board Letter, Lucky Tune, the controlling shareholder of the Company and a company which is owned by Mr. Tsui Ming (a non-executive Director), has charged 63,891,160 Shares with Kingston Finance Limited, an associate of the Underwriter, as security for the loan provided by Kingston Finance Limited. To the best of the Directors’ knowledge and information, save as disclosed above, the Underwriter and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to subscribe for or procure subscription for the Offer Shares which have not been taken up. Accordingly, the Open Offer is fully underwritten. The underwriting commission being payable to the Underwriter is 2.5% of the aggregate Subscription Price in respect of the Underwritten Shares for which the Underwriter have underwritten. As confirmed by the Directors, the said underwriting commission was determined after arm’s length negotiations between the Company and the Underwriter based on normal commercial terms with reference to market rates.

From the Comparables as detailed in the previous table, we noted that the underwriting commission to be received by the Underwriter from the Open Offer of 2.5% falls within the range of commissions of 0% to 3.5% received by the underwriters of the Comparables. For this reason, we are of the opinion that the underwriting commission rate for the Open Offer are in line with common market practice.

Lastly, we have also reviewed the other major terms of the Open Offer and the Underwriting Agreement and are not aware of any terms which are unusual. Consequently, we are of the view that the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM GUANGDONG SECURITIES

Dilution effect on the shareholding interests of the existing public Shareholders

The table below presents the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Open Offer (the “**Completion**”) (assuming all Qualifying Shareholders take up the Offer Shares in full); and (iii) immediately upon Completion (assuming no Qualifying Shareholder takes up the Offer Shares):

Shareholders	Immediately upon Completion					
	As at the Latest Practicable Date		assuming all Qualifying Shareholders take up the Offer Shares in full		assuming no Qualifying Shareholder takes up the Offer Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Lucky Tune (<i>Note 1</i>)	63,891,160	40.21	319,455,800	40.21	63,891,160	8.04
Public Shareholders	95,011,552	59.79	475,057,760	59.79	95,011,552	11.96
The Underwriter (<i>Note 2</i>)	—	—	—	—	635,610,848	80.00
Total	158,902,712	100.00	794,513,560	100.00	794,513,560	100.00

Notes:

1. Lucky Tune is wholly-owned by Mr. Tsui Ming, a non-executive Director.
2. In the event of the Underwriter being called upon to subscribe for or procure subscribers of any of the Underwritten Shares: (i) the Underwriter shall not subscribe, for its own account, for such number of the Underwritten Shares not taken up which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 30% of the then issued share capital of the Company; and (ii) the Underwriter shall ensure that none of the subscribers of the Underwritten Shares will become a substantial shareholder (as defined in the Listing Rules) of the Company as a result of such subscription.

All Qualifying Shareholders are entitled to subscribe for the Offer Shares. For those Qualifying Shareholders who take up their entitlements in full under the Open Offer, their shareholding interests in the Company will remain unchanged after the Open Offer.

In the case that all Qualifying Shareholders do not accept the Open Offer and the Underwriter is obligated to subscribe for or procure subscription of the unsubscribed Offer Shares, the shareholding interests of the existing public Shareholders in the Company will be diluted by a maximum of 47.83 percent point upon Completion.

LETTER FROM GUANGDONG SECURITIES

We are aware of the potential dilution effect as just mentioned. Nevertheless, we consider that the foregoing should be balanced against by the following factors:

- Independent Shareholders are offered a chance to express their view on the terms of the Open Offer and the Underwriting Agreement through their votes at the SGM;
- Qualifying Shareholders have their choice of whether to accept the Open Offer or not;
- the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Offer Shares at a relatively low price as compared to the historical and prevailing market price of the Shares; and
- those Qualifying Shareholders who choose to accept the Open Offer in full can maintain their respective existing shareholding interests in the Company after the Open Offer.

Having considered the above, we consider the potential dilution to the shareholding interests of the existing public Shareholders in the Company to be justifiable.

Financial effects of the Open Offer

(i) Effect on net tangible asset value

A statement of unaudited pro forma consolidated net tangible asset value (“**NTAV**”) of the Group based on the audited consolidated NTAV of the Group as at 31 December 2008 as if the Open Offer had been completed on 31 December 2008 is set out in Appendix II to the Circular (the “**Statement**”).

According to the Statement, the audited consolidated NTAV of the Group was approximately HK\$382.64 million as at 31 December 2008 and the unaudited consolidated NTAV of the Group per Share was approximately HK\$2.408 before Completion based on 158,902,712 Shares in issue as at the Latest Practicable Date. Upon Completion and based on the number of Offer Shares to be issued, the unaudited pro forma adjusted consolidated NTAV of the Group and the unaudited pro forma adjusted consolidated NTAV of the Group per Share would increase by approximately 15.94% to approximately HK\$443.64 million and decrease by approximately 76.83% to approximately HK\$0.558 per Share respectively based on the Statement.

(ii) Effect on gearing position

As mentioned under the section headed “Information on the Group” of this letter, the Group’s gearing level (calculated as total liabilities over total assets of the Group) was approximately 0.15 times as at 31 December 2008. Since the Group’s total assets would increase upon Completion while its total liabilities are not expected to change, the Directors expected that the gearing level of the Group would be alleviated upon Completion.

LETTER FROM GUANGDONG SECURITIES

(iii) Effect on liquidity

As at 31 December 2008, the total bank balances and cash of the Group were approximately HK\$51.77 million. Given that the Company intends to apply the net proceeds from the Open Offer of approximately HK\$61.0 million as general working capital of the Group and for the Group's future business development, the Group's liquidity position would be improved upon Completion.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon Completion.

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Open Offer is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Open Offer and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the Group for each of the three years ended 31 December 2008 as extracted from the relevant annual reports of the Company.

Consolidated Income Statement

	For the year ended 31 December		
	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>511,810</u>	<u>525,902</u>	<u>550,154</u>
Gross Profit	<u>61,650</u>	<u>109,656</u>	<u>129,514</u>
(Loss)/Profit before income tax	(49,291)	17,641	32,254
Income tax (expense)/credit	<u>(6,386)</u>	<u>2,313</u>	<u>(1,947)</u>
(Loss)/Profit for the year attributable to equity holders of the Company	<u><u>(55,677)</u></u>	<u><u>19,954</u></u>	<u><u>30,307</u></u>
Dividends	<u><u>—</u></u>	<u><u>132,503</u></u>	<u><u>16,548</u></u>

Consolidated Balance Sheet

	As at 31 December		
	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	227,243	242,073	318,284
Current assets	<u>225,036</u>	<u>263,242</u>	<u>265,001</u>
Total assets	<u>452,279</u>	<u>505,315</u>	<u>583,285</u>
Current liabilities	65,634	71,075	76,540
Non-current liabilities	<u>4,008</u>	<u>38,850</u>	<u>2,786</u>
Total liabilities	<u>69,642</u>	<u>109,925</u>	<u>79,326</u>
Total Equity	<u><u>382,637</u></u>	<u><u>395,390</u></u>	<u><u>503,959</u></u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2008

Set out below are the audited consolidated financial statements of the Group for the two years ended 31 December 2008 which are extracted from the annual reports of the Group for the year ended 31 December 2008.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Revenue	5	511,810	525,902
Cost of sales		<u>(450,160)</u>	<u>(416,246)</u>
Gross profit		61,650	109,656
Valuation surplus on investment properties		–	2,242
Other income	7	3,207	8,209
Selling and distribution costs		(31,818)	(32,629)
Administrative expenses		(81,725)	(68,769)
Finance costs	8	<u>(605)</u>	<u>(1,068)</u>
(Loss)/Profit before income tax	9	(49,291)	17,641
Income tax (expense)/credit	11	<u>(6,386)</u>	<u>2,313</u>
(Loss)/Profit for the year attributable to equity holders of the Company	12	<u><u>(55,677)</u></u>	<u><u>19,954</u></u>
Dividends	13	<u><u>–</u></u>	<u><u>132,503</u></u>
		<i>HK cents</i>	<i>HK cents</i> (Restated)
(Loss)/Earnings per share			
Basic	14	<u><u>(7.6)</u></u>	<u><u>3.0</u></u>
Diluted	14	<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONSOLIDATED BALANCE SHEET*As at 31 December 2008*

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	174,319	188,339
Prepaid lease payments for land	17	43,728	43,780
Deferred tax assets	29	9,196	9,954
		<u>227,243</u>	<u>242,073</u>
Current assets			
Prepaid lease payments for land	17	1,064	1,014
Inventories	20	112,169	160,711
Trade and other receivables	21	52,341	54,012
Bills receivable	22	2,486	6,022
Deposits and prepayments		5,206	4,903
Cash and bank balances	23	51,770	24,038
		<u>225,036</u>	<u>250,700</u>
Non-current assets classified as held for sale	24	—	12,542
		<u>225,036</u>	<u>263,242</u>
Current liabilities			
Trade and other payables	25	24,431	28,655
Deposits and accruals		38,028	37,892
Borrowings	26	—	3,297
Tax payable		3,175	1,231
		<u>65,634</u>	<u>71,075</u>
Net current assets		<u>159,402</u>	<u>192,167</u>
Total assets less current liabilities		<u>386,645</u>	<u>434,240</u>
Non-current liabilities			
Borrowings	26	—	36,703
Deferred tax liabilities	29	4,008	2,147
		<u>4,008</u>	<u>38,850</u>
Net assets		<u><u>382,637</u></u>	<u><u>395,390</u></u>
Equity			
Equity attributable to equity holders of the Company			
Share capital	27	39,726	33,126
Share premium and reserves		342,911	362,264
Total equity		<u><u>382,637</u></u>	<u><u>395,390</u></u>

BALANCE SHEET*As at 31 December 2008*

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	19	107,146	107,146
Current assets			
Amounts due from subsidiaries	19	169,807	135,322
Deposits and prepayments		88	81
Tax recoverable		126	203
Other receivables		–	92
Cash and bank balances	23	4	79
		170,025	135,777
Current liabilities			
Trade and other payables		–	90
Deposits and accruals		64	–
		64	90
Net current assets		169,961	135,687
Total assets less current liabilities		<u>277,107</u>	<u>242,833</u>
Equity			
Share capital	27	39,726	33,126
Reserves	30	237,381	209,707
Total equity		<u>277,107</u>	<u>242,833</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 December 2008*

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Cash flow from operating activities			
(Loss)/Profit before income tax		(49,291)	17,641
Adjustments for:			
Interest expense	8	605	1,068
Interest income	7	(397)	(452)
Interest yield on held-to-maturity investments	7	—	(2,065)
Amortisation of prepaid lease payments for land		1,064	1,014
Depreciation of property, plant and equipment		28,149	26,992
Loss/(Gain) on disposal of property, plant and equipment		459	(257)
Allowance for doubtful debts		2,917	1,185
Allowance for slow moving inventories		19,061	8,273
Net realised gain on held for trading investments		—	(188)
Net realised loss on held-to-maturity investments		—	978
Net realised gain on investment in certificate of deposits		—	(1,086)
Valuation surplus on investment properties		—	(2,242)
Operating profit before working capital changes		2,567	50,861
Decrease/(Increase) in inventories		29,481	(3,430)
(Increase)/Decrease in trade and other receivables		(1,246)	4
Decrease in bills receivable		3,536	5,745
Increase in deposits and prepayments		(303)	(1,056)
Decrease in trade and other payables		(4,224)	(11,718)
Increase in deposits and accruals		136	2,316
Cash generated from operations		29,947	42,722
Income tax paid		(1,824)	(2,617)
Interest paid		(605)	(1,068)
Net cash generated from operating activities		27,518	39,037

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Cash flow from investing activities			
Interest received		397	452
Interest yield on held-to-maturity investments received		–	3,475
Purchase of property, plant and equipment		(6,745)	(14,100)
Redemption of held-to-maturity investments		–	50,735
Proceeds from disposal of property, plant and equipment		13	445
Proceeds from sales of investment in certificate of deposits		–	27,909
Proceeds from sales of held for trading investments		–	424
Proceeds from sales of investment properties		12,542	–
Net cash generated from investing activities		<u>6,207</u>	<u>69,340</u>
Cash flow from financing activities			
Exercise of share options		–	330
New bank loans		–	92,000
Repayment of bank loans		(40,000)	(52,000)
Dividends paid		–	(142,441)
Proceeds from issuance of share capital		34,980	–
Share issue expense		(973)	–
Net cash used in financing activities		<u>(5,993)</u>	<u>(102,111)</u>
Net increase in cash and cash equivalents		27,732	6,266
Cash and cash equivalents at beginning of the year		<u>24,038</u>	<u>17,772</u>
Cash and cash equivalents at end of the year		<u><u>51,770</u></u>	<u><u>24,038</u></u>
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	23	<u><u>51,770</u></u>	<u><u>24,038</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 December 2008*

	Share capital	Share premium account	Capital redemption reserve	Capital reserve (note)	Exchange reserve	Proposed final dividend	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	33,096	95,954	6,203	29,167	11,987	9,929	317,623	503,959
Currency translation differences recognised directly in equity	-	-	-	-	13,588	-	-	13,588
Profit for the year	-	-	-	-	-	-	19,954	19,954
Total recognised income and expense	-	-	-	-	13,588	-	19,954	33,542
2006 final dividend paid (note 13)	-	-	-	-	-	(9,929)	(9)	(9,938)
Exercise of share options	30	300	-	-	-	-	-	330
Other appropriations	-	-	-	11,102	-	-	(11,102)	-
2007 special dividend paid (note 13)	-	-	-	-	-	-	(132,503)	(132,503)
At 31 December 2007	33,126	96,254	6,203	40,269	25,575	-	193,963	395,390
Currency translation differences recognised directly in equity	-	-	-	-	8,917	-	-	8,917
Loss for the year	-	-	-	-	-	-	(55,677)	(55,677)
Total recognised income and expense	-	-	-	-	8,917	-	(55,677)	(46,760)
Proceeds from shares issued (note 27)	6,600	28,380	-	-	-	-	-	34,980
Share issue expense	-	(973)	-	-	-	-	-	(973)
At 31 December 2008	<u>39,726</u>	<u>123,661</u>	<u>6,203</u>	<u>40,269</u>	<u>34,492</u>	<u>-</u>	<u>138,286</u>	<u>382,637</u>

Note: The capital reserve of the Group represents the Peoples' Republic of China (the "PRC") enterprise reserve fund appropriated from retained profits.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2008***1. GENERAL INFORMATION**

RBI Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, Church Street, Hamilton HM11, Bermuda and its principal place of business is 7/F, Tower 1, 75 Mody Road, Tsimshatsui East, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activities of the Company and its subsidiaries (collectively the “Group”) include the design, manufacture and sale of toys. Details of the principal subsidiaries are set out in note 19 to the financial statements.

The financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 22 April 2009.

2. ADOPTION OF NEW OR AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time the following new HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are relevant to and effective for the Group’s financial statements beginning on 1 January 2008.

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HKAS 39 (Amendments)	Reclassification of Financial Assets

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32, HKAS 39 and HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 39 (Amendments)	Eligible Hedged Items ²
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ²
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate ¹
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives and Financial Instruments: Recognition and Measurement – Embedded Derivatives ⁵
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³

HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁴
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ²
HK(IFRIC) – Int 18	Transfers of Assets from Customers ⁶
Various	Annual Improvements to HKFRSs 2008 ⁷

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

⁵ Effective for annual periods ending on or after 30 June 2009

⁶ Effective for transfer of assets from customers received on or after 1 July 2009

⁷ Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRSs

The directors of the Company anticipate that all of these pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Among these new standards and interpretations, HKAS 1 (Revised) Presentation of Financial Statements is expected to materially change the presentation of the Group's financial statements. The amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. The Group will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 Operating Segments may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors are currently assessing the impact of the other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have any significant impact on the Group's results and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements on pages I-2 to I-53 have been prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost convention. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as “the Group”) made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group’s accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company’s balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group’s presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity.

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend is recognised when the right to receive payment is established.

3.6 Borrowing costs

All borrowing costs are expenses as incurred.

3.7 Research and development activities

Costs associated with research activities are expensed in the income statement as they occur. Costs that are directly attributable to the development phase of toys are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets. They are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

All other development costs are expenses as incurred.

3.8 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Buildings held for own use which are situated on leasehold land, where the fair value of the buildings could be measured separately from the fair value of the leasehold land at the inception of the lease, other than factory under construction, are stated at cost less accumulated depreciation and impairment losses.

Factory under construction is stated at cost less accumulated impairment loss, and is not depreciated. Cost comprises the direct costs incurred during the periods of construction, installation and testing. Factory under construction is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Depreciation is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	20 to 25 years or over the lease term of the land on which the building is situated, if shorter
Plant and machinery	5 to 8 years
Moulds and tools	3 to 5 years
Leasehold improvements, furniture, fixtures and equipment	4 to 5 years
Motor vehicles	4 to 5 years

The assets' residual values, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3.9 Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the income statement for the period in which they arise.

3.10 Impairment of non-financial assets

Property, plant and equipment, prepaid lease payments for land and interests in subsidiaries are subject to impairment testing. They are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those of other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses recognised for cash-generating units is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

Impairment loss is reversed if there has been a favourable change in the estimates used to determine the assets' recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) *Operating lease charges as the lessee*

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(iii) *Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in the income statement on the straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.12 Financial assets

The Group's financial assets are classified into loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors and, national or local economic conditions that correlate with defaults on the assets.

If such evidence exists, the impairment loss is measured and recognised as follows:

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement of the period in which the reversal occurs.

3.13 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.14 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and demand deposits with banks. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the share premium (net of any related income tax benefits), to the extent they are incremental costs directly attributable to the equity transaction.

3.17 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

Defined contribution plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.18 Share-based payment transactions

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees and its directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in income statement with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3.19 Financial liabilities

The Group's financial liabilities include trade and other payables and borrowings.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Trade and other payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.20 Provision and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.21 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or the guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.22 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3.23 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segment as the secondary reporting format.

In respect of business segment reporting, unallocated costs include corporate expenses and other expenses that cannot be allocated on a reasonable basis to the reporting segments. Segment assets consist primarily of property, plant and equipment, prepaid land lease payments for land, inventories, receivables and operating cash, and mainly exclude corporate assets and investment properties. Segment liabilities comprise operating liabilities and exclude items such as tax payables and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment.

In respect of geographical segment reporting, revenue is based on the country in which the customers are located and total assets and capital expenditure are where the assets are located.

3.24 Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the accounts of the Group are concerned are deferred tax assets and financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 3.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated useful lives of property, plant and equipment

The Group determines the estimated useful lives of property, plant and equipment and their related depreciation charges. When useful lives of property, plant and equipment are different from that previously estimated, the depreciation charges for future periods will be adjusted accordingly.

Impairment loss on property, plant and equipment

The property, plant and equipment of the Group are reviewed by management for possible impairment when events or changes in operating environment indicate that the carrying amounts of such assets may not be fully recoverable. In determining the recoverable amounts of these assets, expected cash flows to be generated by the assets are discounted to their present value, which involves significant level of estimates relating to sales volume, selling prices and manufacturing and other operating cost. When a decline in an asset's recoverable amount has occurred, the carrying amount is reduced to its estimated recoverable amount.

Impairment loss on trade and other receivables

The Group regularly conducts assessments on possible losses resulting from the inability of customers to settle the amounts due to the Group. The assessment is based, inter alia, on the age of the debts and the credit-worthiness of the customers. If the financial condition of the customers deteriorates, the amount of allowance for doubtful recovery of receivables would be higher than that provided for in the financial statements.

Impairment loss and net realisable value of inventories

Included in the consolidated balance sheet at 31 December 2008 are inventories of HK\$112,169,000 (2007: HK\$160,711,000) which are carried at the lower of cost and net realisable value. Management conducts assessments on the net realisable value of inventories by reference to their age, obsolescence, estimated net selling price and other economic conditions of the markets in which the Group's customers operate. If the actual selling prices of inventories are substantially less than expected due to an adverse market condition or other factors, impairment loss on inventories may result.

4.2 Critical judgements in applying the entity's accounting policies*Deferred tax assets*

As at 31 December 2008, deferred tax assets of HK\$9,196,000 (2007: HK\$9,954,000) in relation to unused tax losses and other deductible temporary differences have been recognised in the consolidated balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient taxable profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a reversal of the deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, represents the net amounts received and receivable for goods sold by the Group to outside customers, after allowances for returns and trade discount, and rental income received and receivable, during the year.

6. SEGMENT INFORMATION**Primary reporting format – Business segments**

The Group is principally engaged in the design, manufacture and sales of toys. The businesses based upon which the Group reports its primary segment information are as follows:

Own Brand	–	Manufacture of toys designed/ developed by the Group and sold under the Group's brand name or the labels of licensors
OEM/ODM	–	Manufacture of toys with design originated from customers and where the toolings are owned by customers
Moulds	–	Manufacture of moulds for sale to customers

Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

Segment information about these businesses is presented below.

Revenue and results

For the year ended 31 December 2008

	Own Brand <i>HK\$'000</i>	OEM/ODM <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	<u>450,928</u>	<u>60,373</u>	<u>509</u>	<u>511,810</u>
Result				
Segment results	<u>(7,852)</u>	<u>1,640</u>	<u>11</u>	<u>(6,201)</u>
Other income				3,207
Unallocated corporate expenses				(45,692)
Finance costs				<u>(605)</u>
Loss before income tax				(49,291)
Income tax expense				<u>(6,386)</u>
Loss for the year attributable to equity holders of the Company				<u>(55,677)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP***For the year ended 31 December 2007*

	Own Brand <i>HK\$'000</i>	OEM/ODM <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	<u>450,250</u>	<u>75,177</u>	<u>475</u>	<u>525,902</u>
Result				
Segment results	<u>37,542</u>	<u>4,182</u>	<u>43</u>	<u>41,767</u>
Other income				8,209
Valuation surplus on investment properties				2,242
Unallocated corporate expenses				(33,509)
Finance costs				<u>(1,068)</u>
Profit before income tax				17,641
Income tax credit				<u>2,313</u>
Profit for the year attributable to equity holders of the Company				<u>19,954</u>

*Consolidated assets and liabilities**As at 31 December 2008*

	Own Brand <i>HK\$'000</i>	OEM/ODM <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	128,509	30,884	3,448	162,841
Other unallocated assets				<u>289,438</u>
Consolidated total assets				<u>452,279</u>
Liabilities				
Segment liabilities	7,835	6,686	625	15,146
Unallocated liabilities				<u>54,496</u>
Consolidated total liabilities				<u>69,642</u>

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FINANCIAL INFORMATION OF THE GROUP

As at 31 December 2007

	Own Brand <i>HK\$'000</i>	OEM/ODM <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	181,408	28,192	892	210,492
Investment properties (classified as non-current assets held for sale)				12,542
Other unallocated assets				<u>282,281</u>
Consolidated total assets				<u><u>505,315</u></u>
Liabilities				
Segment liabilities	12,058	8,395	4,403	24,856
Unallocated liabilities				<u>85,069</u>
Consolidated total liabilities				<u><u>109,925</u></u>

Other information

For the year ended 31 December 2008

	Own Brand <i>HK\$'000</i>	OEM/ODM <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital additions					
– Property, plant and equipment	3,947	–	13	2,785	6,745
Depreciation and amortisation	25,520	1,958	20	1,715	29,213
Loss on disposal of property, plant and equipment	459	–	–	–	459
Allowance for doubtful debts	2,917	–	–	–	2,917
Allowance for slow moving inventories	<u>18,329</u>	<u>732</u>	<u>–</u>	<u>–</u>	<u>19,061</u>

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FINANCIAL INFORMATION OF THE GROUP

For the year ended 31 December 2007

	Own Brand HK\$'000	OEM/ODM HK\$'000	Moulds HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital additions					
– Property, plant and equipment	9,260	–	–	4,840	14,100
Depreciation and amortisation	24,658	1,600	82	1,666	28,006
Gain on disposal of property, plant and equipment	(257)	–	–	–	(257)
Allowance for doubtful debts	1,185	–	–	–	1,185
Allowance for slow moving inventories	<u>7,838</u>	<u>348</u>	<u>–</u>	<u>87</u>	<u>8,273</u>

Secondary reporting format – Geographical segments

The sales activities by geographical market of the Group's products are substantially carried out in Hong Kong while the Group's manufacturing activities are carried out in other regions in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2008 HK\$'000	2007 HK\$'000
North America		
United States of America	152,515	164,653
Canada	43,430	48,148
Europe (mainly including the United Kingdom, Denmark and Italy)	233,966	231,799
Asia (mainly including Japan and South Korea)	20,702	21,270
Other locations (mainly including Australia and New Zealand)	<u>61,197</u>	<u>60,032</u>
	<u>511,810</u>	<u>525,902</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

The following is an analysis of the carrying amounts of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Segment assets		Capital expenditure	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	76,674	61,695	453	719
Mainland China	302,612	353,718	6,292	13,381
United States of America	72,993	89,902	—	—
	<u>452,279</u>	<u>505,315</u>	<u>6,745</u>	<u>14,100</u>

7. OTHER INCOME

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	397	452
Interest yield on held-to-maturity investments	—	2,065
Rental income from investment properties	11	522
PRC tax incentive (<i>note</i>)	637	3,011
Other income	2,162	2,159
	<u>3,207</u>	<u>8,209</u>

Note: The PRC tax incentive represents part of the income tax paid by certain PRC subsidiaries refunded by the PRC government as an incentive for re-investment of the profits of these subsidiaries.

8. FINANCE COSTS

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans wholly repayable within five years	602	698
Interest on bank overdrafts	3	370
	<u>605</u>	<u>1,068</u>

9. (LOSS)/PROFIT BEFORE INCOME TAX

	2008 HK\$'000	2007 HK\$'000
(Loss)/Profit before income tax is arrived at after charging/(crediting):		
Auditors' remuneration	805	770
Amortisation of prepaid lease payments for land	1,064	1,014
Cost of inventories sold – including allowance for slow moving inventories	260,947	243,682
Depreciation of property, plant and equipment	28,149	26,992
Operating lease charges:		
– land and buildings	2,502	2,300
Loss/(Gain) on disposal of property, plant and equipment	459	(257)
Research and development costs	7,075	6,259
Employee benefit expense including directors' remuneration (<i>note 15</i>)	138,886	121,432
Allowance for doubtful debts	2,917	1,185
Allowance for slow moving inventories	19,061	8,273
Net realised gain on held for trading investments	–	(188)
Net realised loss on held-to-maturity investments	–	978
Net realised gain on investment in certificate of deposits	–	(1,086)
Net foreign exchange loss	1,552	492

10. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

(a) Directors' remuneration

Executive directors, non-executive director and independent non-executive directors

	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Performance related incentive payments HK\$'000	Contributions to retirement benefit schemes HK\$'000	Total HK\$'000
2008					
<i>Executive directors</i>					
Mr. Tsui Ming [△]	–	622	113	31	766
Mr. Chau Kai Man	–	742	62	37	841
Mr. Yip Yun Kuen ^{##}	–	3,000	1,000	101	4,101
<i>Independent non-executive directors</i>					
Mr. Kwong Kwan Ming	24	–	–	–	24
Mr. Shih, Daniel Chia [#]	32	–	–	–	32
Mr. Foo Tin Chung, Victor [#]	40	–	–	–	40
Mr. Wu Tak Lung [*]	16	–	–	–	16
Mr. Leung Chi Kin [*]	16	–	–	–	16
Mr. Chow King Lok ^{**}	10	–	–	–	10
Total emoluments for year 2008	138	4,364	1,175	169	5,846
2007					
<i>Executive directors</i>					
Mr. Tsui Ming ^{***}	–	250	60	8	318
Mr. Chau Kai Man ^{***}	–	310	48	10	368
Mr. Yip Yun Kuen	–	2,508	1,400	101	4,009
Mr. Yip Yun Tim ^{###}	–	471	–	24	495
Mr. Chan Shun Po ^{###}	–	684	–	34	718
Mr. Chan, Michael Siu Tai ^{###}	–	242	–	12	254
<i>Non-executive director</i>					
Mr. Yeung Wai Kin ^{###}	100	–	–	–	100
<i>Independent non-executive directors</i>					
Mr. Man Mo Leung ^{###}	150	–	–	–	150
Mr. Yap Alfred Donald, JP ^{###}	100	–	–	–	100
Mr. Chan Chu Kwan ^{###}	100	–	–	–	100
Mr. Kwong Kwan Ming ^{***}	12	–	–	–	12
Mr. Shih, Daniel Chia ^{***}	48	–	–	–	48
Mr. Foo Tin Chung, Victor ^{***}	60	–	–	–	60
Total emoluments for year 2007	570	4,465	1,508	189	6,732

*	<i>Appointed on 1 May 2008</i>
**	<i>Appointed on 1 August 2008</i>
***	<i>Appointed on 3 July 2007</i>
#	<i>Resigned on 1 May 2008</i>
##	<i>Resigned on 1 January 2009</i>
###	<i>Resigned on 3 July 2007</i>
△	<i>Re-designated as a non-executive director on 1 January 2009</i>

Note:

The performance related incentive payments were determined mainly with the Group's overall performance.

The amounts disclosed above include directors' fees of HK\$138,000 (2007: HK\$470,000) and nil (2007: HK\$100,000) paid or payable to six (2007: six) independent non-executive directors and nil (2007: one) non-executive director respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2008 (2007: Nil).

During the year ended 31 December 2008, no share options were granted to the directors in respect of their services to the Group and further details of which were set out in note 28 to the financial statements (2007: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2007: one) whose emoluments are included in the analysis presented above. The emoluments payable to the remaining four (2007: four) individuals during the year are as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Salaries, allowances and benefits in-kind	4,158	2,909
Performance related incentive payments	1,349	1,387
Contributions to retirement benefit schemes	57	82
	<u>5,564</u>	<u>4,378</u>

The emoluments fell within the following bands:

	2008	2007
Emolument bands		
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	4	3

No emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

11. INCOME TAX EXPENSE/(CREDIT)

	2008 HK\$'000	2007 HK\$'000
Current tax:		
– Hong Kong		
Tax for the year	2,588	2,223
Under provision in respect of prior years	443	238
– The PRC		
Tax for the year	254	784
– Other jurisdictions		
Tax for the year	–	13
Deferred tax		
Current year	3,101	(5,571)
	<u>6,386</u>	<u>(2,313)</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year.

Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Reconciliation between tax expense/(credit) and accounting (loss)/profit at applicable tax rates:

	2008 HK\$'000	2007 HK\$'000
(Loss)/Profit before income tax	<u>(49,291)</u>	<u>17,641</u>
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	(8,133)	3,087
Tax effect of expenses not deductible	8,537	1,182
Tax effect of income not taxable	(1,723)	(3,033)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,289)	(849)
Tax effect of tax loss not recognised	4,793	1,493
Tax effect of other deferred tax assets not recognised	4,011	(3,634)
Utilisation of deferred tax assets previously not recognised	(287)	(45)
Underprovision in respect of prior years	443	238
Others	<u>34</u>	<u>(752)</u>
Income tax expense/(credit) for the year	<u>6,386</u>	<u>(2,313)</u>

Notes:

- (i) The profits of certain subsidiaries are subject to Hong Kong profits tax on a 50:50 apportionment basis.
- (ii) The Hong Kong Government enacted a reduction in the Profits Tax Rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Accordingly, the relevant current and deferred tax assets and liabilities have been calculated using the new tax rate of 16.5%.

12. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holders of the Company of approximately HK\$55,677,000 (2007: profit of HK\$19,954,000), a profit of approximately HK\$267,000 (2007: HK\$109,454,000) has been dealt with in the financial statements of the Company.

13. DIVIDENDS**(a) Dividends attributable to the year**

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Special dividend paid		
– Nil (2007: HK 40 cents) per ordinary share	–	132,503

The directors had declared and paid a special dividend of HK 40 cents per share, totalling HK\$132,503,000 during the year ended 31 December 2007. The directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: Nil) and the Company did not pay any interim dividend during the year (2007: Nil).

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Final dividend in respect of the previous financial year		
Current year – Nil (2007: HK3 cents per share)	–	9,938

14. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company of HK\$55,677,000 (2007: profit of HK\$19,954,000) and on the weighted average of 735,727,000 (2007 (Restated): 662,276,000) ordinary shares in issue during the year. The earnings per share for the year ended 31 December 2007 was restated due to the share subdivision as mentioned in note 27(i).

Diluted (loss)/earnings per share for the years ended 31 December 2008 and 2007 were not presented because the impact of the exercise of share options was anti-dilutive.

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Salaries, allowances and benefits-in-kind	126,191	114,000
Performance related and incentive payments	2,524	2,895
Contributions to retirement benefits schemes	6,007	4,537
Termination benefits	4,164	–
	<u>138,886</u>	<u>121,432</u>

There was no forfeited contribution in respect of the defined contribution retirement scheme being utilised for the year ended 31 December 2008 (2007: Nil). No forfeiture balance was available as at 31 December 2008 (2007: Nil) to reduce future contributions.

16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings <i>HK\$'000</i>	Factory under construction <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Moulds and tools <i>HK\$'000</i>	Leasehold improvements, furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
A 1 January 2007							
Cost	173,919	3,444	146,217	168,137	72,456	6,616	570,789
Accumulated depreciation	(51,236)	–	(122,674)	(146,181)	(54,885)	(5,886)	(380,862)
Net carrying amount	<u>122,683</u>	<u>3,444</u>	<u>23,543</u>	<u>21,956</u>	<u>17,571</u>	<u>730</u>	<u>189,927</u>
Year ended							
31 December 2007							
Opening net carrying amount	122,683	3,444	23,543	21,956	17,571	730	189,927
Exchange differences	7,394	(122)	1,875	80	2,218	47	11,492
Additions	–	1,438	355	9,260	2,099	948	14,100
Reclassification	–	(4,500)	192	–	4,308	–	–
Disposal	–	–	–	–	(81)	(107)	(188)
Depreciation	(7,940)	–	(2,983)	(10,621)	(5,006)	(442)	(26,992)
Closing net carrying amount	<u>122,137</u>	<u>260</u>	<u>22,982</u>	<u>20,675</u>	<u>21,109</u>	<u>1,176</u>	<u>188,339</u>
At 31 December 2007							
Cost	184,180	260	152,591	177,815	82,049	5,663	602,558
Accumulated depreciation	(62,043)	–	(129,609)	(157,140)	(60,940)	(4,487)	(414,219)
Net carrying amount	<u>122,137</u>	<u>260</u>	<u>22,982</u>	<u>20,675</u>	<u>21,109</u>	<u>1,176</u>	<u>188,339</u>

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	Buildings	Factory under construction	Plant and machinery	Moulds and tools	Leasehold improvements, furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended							
31 December 2008							
Opening net carrying amount	122,137	260	22,982	20,675	21,109	1,176	188,339
Exchange differences	4,622	51	1,311	259	1,267	346	7,856
Additions	–	336	1,232	3,948	1,229	–	6,745
Reclassification	–	(54)	–	–	54	–	–
Disposal	–	–	–	–	(472)	–	(472)
Depreciation	(8,571)	–	(3,959)	(10,672)	(4,396)	(551)	(28,149)
Closing net carrying amount	118,188	593	21,566	14,210	18,791	971	174,319
At 31 December 2008							
Cost	190,768	593	157,852	182,485	84,282	5,732	621,712
Accumulated depreciation	(72,580)	–	(136,286)	(168,275)	(65,491)	(4,761)	(447,393)
Net carrying amount	118,188	593	21,566	14,210	18,791	971	174,319

An analysis of the carrying amount of the Group's properties is set out below:

	2008 HK\$'000	2007 HK\$'000
Buildings situated on land in Hong Kong		
– Under medium-term lease	8,729	9,380
Buildings situated on land in the PRC		
– Under medium-term lease	109,459	112,757
	118,188	122,137
Factory under construction on land in the PRC		
– Under medium-term lease	593	260
	118,781	122,397

At 31 December 2008, certain banking facilities of the Group were secured by certain Group's buildings with carrying amount of HK\$8,267,000 (2007: HK\$8,858,000).

17. PREPAID LEASE PAYMENTS FOR LAND – GROUP

The Group's prepaid lease payments for land comprise land use rights in the PRC and leasehold land situated in Hong Kong which are held under medium-term leases as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Leasehold land – leases of between 10 to 50 years		
In the PRC	30,426	30,093
In Hong Kong	<u>14,366</u>	<u>14,701</u>
	<u><u>44,792</u></u>	<u><u>44,794</u></u>
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Opening net carrying amount	44,794	44,138
Exchange differences	1,062	1,670
Amortisation for the year	<u>(1,064)</u>	<u>(1,014)</u>
Closing net carrying amount	<u><u>44,792</u></u>	<u><u>44,794</u></u>
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Analysed for reporting purposes as:		
Non-current	43,728	43,780
Current	<u>1,064</u>	<u>1,014</u>
	<u><u>44,792</u></u>	<u><u>44,794</u></u>

At 31 December 2008, certain banking facilities of the Group are secured on land with carrying amount of HK\$12,888,000 (2007: HK\$13,187,000).

18. INVESTMENT PROPERTIES – GROUP

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes were measured using the fair value model and were classified and accounted for as investment properties.

Changes to the carrying amounts presented in the balance sheet can be summarised as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Carrying amount at 1 January	–	10,300
Increase in fair value recognised in the consolidated income statement	–	2,242
Transfer to non-current assets classified as held for sale (<i>note 24</i>)	–	(12,542)
	<u>–</u>	<u>(12,542)</u>
Carrying amount at 31 December	<u>–</u>	<u>–</u>

On 10 December 2007, the Group entered into an Agreement of Sales and Purchase with an independent third party for the disposal of the Group's investment properties at a consideration of HK\$12,542,400. The transaction was subsequently completed on 28 February 2008. The investment properties of the Group were reclassified as non-current assets held for sale at 31 December 2007 and presented separately in the consolidated balance sheet in accordance with HKFRS 5. Details of the non-current assets held for sale are set out in note 24.

19. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Unlisted shares, at cost	<u>107,146</u>	<u>107,146</u>

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

(a) Details of the principal subsidiaries at 31 December 2008 are as follows:

Name	Place of incorporation/ establishment/ operations	Particulars of issued share/registered capital	Percentage of equity attributable to the Company	Principal activities
Held directly				
RBI International Investment Limited (<i>i</i>)	British Virgin Islands ("BVI")	Ordinary US\$30,000	100%	Investment holding
Held indirectly				
Dongguan Tai Fat Toy Factory Ltd. (a foreign wholly-owned enterprise)	The PRC	Registered HK\$36,800,000	100%	Manufacture and sale of toys

Name	Place of incorporation/ establishment/ operations	Particulars of issued share/registered capital	Percentage of equity attributable to the Company	Principal activities
Dongguan Tungfat Toy Factory Ltd. (a foreign wholly-owned enterprise)	The PRC	Registered HK\$55,670,000	100%	Manufacture and sale of toys
Motormax Industries (Heyuan) Ltd (a foreign wholly-owned enterprise)	The PRC	Registered HK\$30,000,000	100%	Manufacture and sale of toys
Motormax Toy Factory Limited	Hong Kong	Ordinary HK\$100,000	100%	Trading of toys
RBI Industries (Shenzhen) Co. Ltd (a foreign wholly-owned enterprise)	The PRC	Registered HK\$46,000,000	100%	Manufacture and sale of toys
RBI Toys Inc.	United States of America	Common Stock US\$10,000	100%	Trading of toys
Red Box Toy Factory Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred (iii) HK\$12,000,000	100%	Design, trading and marketing of toys and investment holding
Reach Wealth Investment Limited	BVI	Ordinary US\$100	100%	Trading of toys and investment
Tai Fat Toy Factory (China) Limited (ii)	Hong Kong	Ordinary HK\$2,900,000 Non-voting deferred (iv) HK\$5,100,000	100%	Manufacture and sale of toys

- (i) Operating principally in Hong Kong.
- (ii) Operating principally in the PRC.
- (iii) The non-voting deferred shares, which are held by RBI International Investment Limited, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the subsidiary or to participate in any distribution on winding up.
- (iv) The non-voting deferred shares, which are held by Tung Fat Toy Factory Limited, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the subsidiary or to participate in any distribution or winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INVENTORIES – GROUP

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Raw materials	38,027	45,831
Work in progress	47,124	72,559
Finished goods	27,018	42,321
	<u>112,169</u>	<u>160,711</u>

At 31 December 2008, all the inventories are stated at cost. None of the inventories are stated at net realisable value (2007: Nil).

For the year ended 31 December 2008, the Group made allowance for slow moving inventories of approximately HK\$19,061,000 (2007: HK\$8,273,000).

21. TRADE AND OTHER RECEIVABLES – GROUP

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade receivables	65,660	64,654
Less: Allowance for impairment of receivables	<u>(13,933)</u>	<u>(11,118)</u>
Trade receivables – net	51,727	53,536
Other receivables	<u>614</u>	<u>476</u>
	<u>52,341</u>	<u>54,012</u>

The directors of the Company considered that the fair values of trade and other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

The Group generally allows a credit period of 30 to 90 days to its trade customers. Based on invoice date, an ageing analysis of the Group's net trade receivables was as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0 – 30 days	19,595	22,789
31 – 60 days	12,738	14,309
61 – 90 days	14,349	11,567
Over 90 days	<u>5,045</u>	<u>4,871</u>
	<u>51,727</u>	<u>53,536</u>

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movements in the allowance for impairment of trade receivables are as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
At 1 January	11,118	9,933
Amount written off during the year	(102)	–
Impairment recognised	<u>2,917</u>	<u>1,185</u>
At 31 December	<u><u>13,933</u></u>	<u><u>11,118</u></u>

At each balance sheet date the Group reviews receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2008, the Group has determined trade receivables of approximately HK\$13,933,000 as individually impaired (2007: HK\$11,118,000). Based on this assessment, impairment loss of approximately HK\$2,917,000 has been recognised for the year (2007: HK\$1,185,000). The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments.

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

The ageing analysis of the Group's trade receivables that were past due as at the balance sheet date but not impaired, based on due date is as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Not yet past due	38,457	45,698
1-90 days past due	12,340	7,155
91-180 days past due	109	274
Over 180 days past due	<u>821</u>	<u>409</u>
	<u><u>51,727</u></u>	<u><u>53,536</u></u>

As at 31 December 2008, trade receivables of HK\$38,457,000 (2007: HK\$45,698,000) were neither past due nor impaired. These related to a large number of diversified customers from whom there were no recent history of default. Trade receivables that were past due but not impaired related to a large number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group did not hold any collateral in respect of trade receivables past due but not impaired.

22. BILLS RECEIVABLE – GROUP

An ageing analysis of the Group's bills receivable outstanding at the balance sheet date based on invoice date is as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0 – 30 days	1,232	3,500
31 – 60 days	220	328
61 – 90 days	384	1,098
Over 90 days	650	1,096
	<u>2,486</u>	<u>6,022</u>

The ageing analysis of the bills receivable that are not considered to be impaired is as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Not yet past due	<u>2,486</u>	<u>6,022</u>

The directors of the Company considered that the fair value of bills receivable is not materially different from its carrying amount because this amount has short maturity periods on its inception.

23. CASH AND BANK BALANCES

Cash and bank balances include the following components:

	Group		Company	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Cash at banks and in hand	18,239	12,955	4	79
Short-term bank deposits	<u>33,531</u>	<u>11,083</u>	<u>–</u>	<u>–</u>
	<u>51,770</u>	<u>24,038</u>	<u>4</u>	<u>79</u>

The short-term bank deposits earn interest at 1.38% (2007: 3.28%) per annum. They have a maturity of 7 days to 31 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

The directors of the Company considered that the fair value of short-term deposit is not materially different from its carrying amounts because of the short maturity periods on its inception.

Included in cash and bank balances of the Group is HK\$1,831,000 (2007: HK\$4,044,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

24. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE – GROUP

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Carrying amount at 1 January	12,542	–
Transfer from investment properties	–	12,542
Disposal	(12,542)	–
	<u> </u>	<u> </u>
Carrying amount at 31 December	<u> </u> <u> </u>	<u> </u> <u> </u>

The directors of the Company consider the fair values of the Group's investment properties classified as held for sale approximate the sale proceeds amounted to HK\$12,542,000 as at 31 December 2007.

25. TRADE AND OTHER PAYABLES – GROUP

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade payables	17,001	18,066
Other payables	7,430	10,589
	<u> </u>	<u> </u>
	<u> </u> <u> </u>	<u> </u> <u> </u>

The Group was granted by its suppliers credit period ranging from 30 to 60 days. Based on the invoice dates, the ageing analysis of the Group's trade payables were as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0 – 30 days	10,402	9,578
31 – 60 days	5,002	6,261
61 – 90 days	915	1,792
Over 90 days	682	435
	<u> </u>	<u> </u>
	<u> </u> <u> </u>	<u> </u> <u> </u>

All amounts are short term and hence the carrying amounts of trade and other payables are considered to be a reasonable approximation of their fair values.

26. BORROWINGS – GROUP

The Group's bank loans were repayable as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Within one year	–	3,297
In the second year	–	3,438
In the third to fifth year	–	11,220
	<hr/>	<hr/>
Wholly repayable within five years	–	17,955
After the fifth year	–	22,045
	<hr/>	<hr/>
	–	40,000
<i>Less: Current portion due within one year</i>	–	(3,297)
	<hr/>	<hr/>
Non-current portion	–	36,703
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2007, all bank loans were denominated in HK\$ and the bank borrowings bear floating interest rate at 0.4% over 1, 2 or 3 month Hong Kong Interbank Offered Rate per annum. The interest rate was 4.19% during the year ended 31 December 2007.

All bank loans were fully repaid during the year ended 31 December 2008.

At 31 December 2008, the Group had total banking facilities amounted to HK\$141,500,000 (2007: HK\$144,000,000). None of the banking facilities was utilised at 31 December 2008 (2007: HK\$40,000,000 had been utilised). These banking facilities were secured by certain leasehold land and buildings held by the Group and corporate guarantees provided by certain subsidiaries and the Company.

27. SHARE CAPITAL

	Number of shares		Nominal value	
	2008	2007	2008	2007
	'000	'000	'000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each				
At 1 January	800,000	800,000	800,000	80,000
Share subdivision (<i>note (i)</i>)	<u>800,000</u>	<u>—</u>	<u>800,000</u>	<u>—</u>
Ordinary shares of HK\$0.05 each				
At 31 December	<u>1,600,000</u>	<u>800,000</u>	<u>1,600,000</u>	<u>80,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.1 each				
At 1 January 2007	331,256	330,956	33,126	33,096
Exercise of share options	<u>—</u>	<u>300</u>	<u>—</u>	<u>30</u>
Ordinary shares of HK\$0.1 each				
At 31 December 2007 and 1 January 2008	331,256	331,256	33,126	33,126
Issue of new shares (<i>note (ii)</i>)	66,000	—	6,600	—
Share subdivision (<i>note (i)</i>)	<u>397,257</u>	<u>—</u>	<u>—</u>	<u>—</u>
Ordinary shares of HK\$0.05 each				
At 31 December 2008	<u>794,513</u>	<u>331,256</u>	<u>39,726</u>	<u>33,126</u>

Notes:

- (i) Pursuant to the resolutions passed at the Annual General Meeting held on 13 June 2008, the Company subdivided each of the issued and unissued shares of HK\$0.10 each in the share capital of the Company into 2 shares of HK\$0.05 each (the “Share Subdivision”). The Share Subdivision took place on 16 June 2008.
- (ii) On 23 May 2008, the Company entered into a placing agreement for a placement of total of 66,000,000 new shares of the Company at a placing price of HK\$0.53 per share (the “Share Placing”). The Share Placing was completed on 12 June 2008.

28. SHARE-BASED EMPLOYEE COMPENSATION

The Company’s share option scheme (the “Old Scheme”) was adopted on 21 December 1995 for the primary purpose of providing incentives to directors and eligible employees, and had been expired on 20 December 2005. Under the Old Scheme, options had been granted to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

All the share options under the Old Scheme which were outstanding as at 1 January 2007 were exercised and forfeited during the year ended 31 December 2007. There was no outstanding share option under the Old Scheme as at 31 December 2008 and 2007.

Pursuant to a resolution passed on 28 August 2007, the Company adopted a new share option scheme (the “New Scheme”) relating to the grant of share options to directors, employees and other participants including consultants, advisers, suppliers and customers of the Group (the “Grantee”).

The directors may specify the minimum period, if any, for which an option must be held or the performance targets, if any, that must be achieved by the Grantee before the option can be exercised.

Share options may be granted without any initial payment and at an exercise price (subject to adjustments as provided therein) equal to the highest of (i) the nominal value of the shares; (ii) the closing price per share as stated in the Stock Exchange’s daily quotations sheet on the date of the grant of the share option; and (iii) the average closing price per share as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of the grant of the share option.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the New Scheme and any other share option scheme(s) of the Company shall not exceed 10 per cent of the share capital of the Company in issue on 28 August 2007, the date of adoption of the New Scheme, unless a refresh approval of the shareholders is obtained. As at the balance sheet date, the total number of shares available for issue under the New Scheme is 79,451,000, which represents 10% of the issued share capital of the Company.

The maximum number of the shares (issued and to be issued) in respect of which share options may be granted under the New Scheme to any one Grantee in any 12-month period shall not exceed 1 per cent of the share capital of the Company in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

The New Scheme was approved by the shareholders of the Company on 28 August 2007 and has a life of 10 years until 27 August 2017.

No share options under the New Scheme were outstanding at the beginning or at the end of the financial year, and no share options under the New Scheme were granted, exercised, cancelled or lapsed during the financial year.

The following table discloses details of the Company’s share options and movements in such holdings:

Year ended 31 December 2007

Granted to	Date of grant	Exercisable period	Subscription price per share HK\$	Number of shares under options granted			Outstanding at 31 December 2007
				Outstanding at 1 January 2007	Exercised during the year	Forfeited during the year	
Directors	2 January 2002	1 January 2004 to 31 December 2013	1.1	600,000	(300,000)	(300,000)	–

29. DEFERRED TAX ASSETS/(LIABILITIES)

The followings are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation <i>HK\$'000</i>	Unrealised profit on intra-group transfer of assets <i>HK\$'000</i>	Other temporary differences <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2007	(3,087)	3,068	1,829	1,810
Credit to income statement (<i>note 11</i>)	3,375	865	1,331	5,571
Exchange difference	295	85	46	426
At 31 December 2007 and 1 January 2008	583	4,018	3,206	7,807
Credit/(Charge) to income statement (<i>note 11</i>)	1,484	(5,107)	522	(3,101)
Exchange difference	293	129	60	482
At 31 December 2008	<u>2,360</u>	<u>(960)</u>	<u>3,788</u>	<u>5,188</u>
		2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	
Deferred tax assets		9,196	9,954	
Deferred tax liabilities		<u>(4,008)</u>	<u>(2,147)</u>	
		<u>5,188</u>	<u>7,807</u>	

At 31 December 2008, the Group had unused tax losses of HK\$62,944,000 (2007: HK\$43,016,000) available for offset against future profits. Deferred tax assets have been recognised in respect of tax losses HK\$1,739,000 (2007: HK\$9,709,000). No deferred tax asset has been recognised in respect of the remaining HK\$61,205,000 (2007: HK\$33,307,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$24,870,000 (2007: HK\$24,609,000) and HK\$17,538,000 that will expire from 2009 to 2027 and from 2009 to 2013 respectively. Other unused tax losses may be carried forward indefinitely.

30. RESERVES**Company**

	Share premium	Capital redemption reserve	Contributed surplus (note)	Proposed final dividend	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	95,954	6,203	100,635	9,929	29,673	242,394
Profit for the year	—	—	—	—	109,454	109,454
2006 final dividend paid (note 13)	—	—	—	(9,929)	(9)	(9,938)
Exercise of share option	300	—	—	—	—	300
2007 special dividend paid (note 13)	—	—	—	—	(132,503)	(132,503)
At 31 December 2007	96,254	6,203	100,635	—	6,615	209,707
Profit for the year	—	—	—	—	267	267
Placing of new shares (note 27)	28,380	—	—	—	—	28,380
Share issue expense	(973)	—	—	—	—	(973)
At 31 December 2008	<u>123,661</u>	<u>6,203</u>	<u>100,635</u>	<u>—</u>	<u>6,882</u>	<u>237,381</u>

Note: The contributed surplus of the Company represents the excess of the carrying value of the subsidiaries acquired over the nominal value of the Company's shares issued.

31. OPERATING LEASE COMMITMENTS GROUP

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable by the Group as follows:

	2008 HK\$'000	2007 HK\$'000
Within one year	880	2,006
In the second to fifth year inclusive	<u>1,372</u>	<u>—</u>
	<u>2,252</u>	<u>2,006</u>

The Group leases a number of properties and warehouse under operating leases. The leases run for an initial period of 2 to 3 years, with an option to renew the leases and renegotiated the terms at the expiry dates or at date or at dates as mutually agreed between the Group and the respective landlords. None of the leases include contingent rental.

COMPANY

The Company did not have any significant operating lease commitments and arrangements at 31 December 2008 (2007: Nil).

32. CAPITAL COMMITMENTS GROUP

	2008 HK\$'000	2007 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	<u>994</u>	<u>3,186</u>

The Company did not have any significant capital commitments at 31 December 2008 (2007: Nil).

33. CONTINGENT LIABILITIES

As at 31 December 2008, the Group and the Company had no significant contingent liabilities (2007: Nil).

34. FINANCIAL GUARANTEE CONTRACTS

The Company has executed guarantees amounting to approximating HK\$141,500,000 (2007: HK\$141,500,000) with respect to general banking facilities granted to certain subsidiaries of the Company. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover the loan. At the balance sheet date, no provision for the Company's obligation under the guarantee contract has been made as the loan has been fully settled during the year.

35. RELATED PARTY TRANSACTIONS

Key management personnel compensation:

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in note 10, is as follows:

	2008 HK\$'000	2007 HK\$'000
Short term employee benefit:		
Salaries, allowances and benefits-in-kind	8,660	7,944
Performance related incentive payments	2,524	2,895
Post-employment benefits:		
Contributions to retirement benefit schemes	<u>226</u>	<u>271</u>
	<u>11,410</u>	<u>11,110</u>

The remuneration is included in "employee benefit expense" (see note 15). There are no other material related party transactions for the year ended 31 December 2008 (2007: Nil).

36. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risks (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The Group's Senior Financial Committee works under direction of the board of directors. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

36.1 Category of financial assets and liabilities

The carrying amounts presented in the balance sheets relate to the following categories of financial assets and financial liabilities.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Financial assets		
Loans and receivables		
Trade and other receivables	52,341	54,012
Bills receivable	2,486	6,022
Cash and bank balances	51,770	24,038
	<u>106,597</u>	<u>84,072</u>
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Financial liabilities		
Financial liabilities measured at amortised costs		
Trade and other payables	24,431	28,655
Accruals	13,690	16,197
Borrowings	—	40,000
	<u>38,121</u>	<u>84,852</u>

36.2 Foreign currency risk*(i) Transactions in foreign currencies and the Group's risk management policies*

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its overseas sales and purchases, which are primarily denominated in Renminbi ("RMB") and United States Dollars ("US\$"). These are not the functional currencies of the Group entities to which these transactions relate. As HK\$ is pegged to US\$, accordingly the Group does not have any significant exposure to risk resulting from changes in US\$ exchange rates. The Group reviews its foreign currency exposure regularly. No hedging or other alternatives have been implemented during the year.

The policies to manage foreign currency risk have been followed by the Group since prior years and are considered to be effective.

(ii) Summary of exposure

Foreign currency denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rates, are as follows:

	2008		2007	
	US\$	RMB	US\$	RMB
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	51,727	–	49,347	–
Bills receivable	2,486	–	5,669	–
Cash and bank balances	43,184	2,101	7,126	5,156
Trade payables	<u>(61)</u>	<u>(6,238)</u>	<u>(18)</u>	<u>(7,670)</u>
Gross exposure arising from recognised financial assets/ (liabilities)	<u>97,336</u>	<u>(4,137)</u>	<u>62,124</u>	<u>(2,514)</u>

The Company does not have any exposures to foreign currencies risks at the balance sheet date. (2007: Nil).

(iii) Sensitivity analysis

The following table illustrates the sensitivity of the Group's (loss)/profit for the year and equity in regards to a 5% (2007: 5%) appreciation in the Group entities' functional currencies against the respective foreign currencies. The 5% is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the balance sheet date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

	2008		2007	
	US\$	RMB	US\$	RMB
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/Profit for the year and equity	<u>4,060</u>	<u>173</u>	<u>2,563</u>	<u>104</u>

A 5% depreciation in the Group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's (loss)/profit for the year and equity but of opposite effect.

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of the year ended 31 December 2007.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

36.3 Interest rate risk

(i) Exposures to interest rate risk and the Group's risk management policies

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from borrowings. Borrowings bearing variable rates and fixed rates expose the Group to cash flow interest rate risk. The exposure to interest rates for the Group's short term bank deposits is considered immaterial.

The Group will review whether bank loans bearing floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The interest rates and repayment terms of bank and other borrowings and cash and bank balances of the Group are disclosed in note 26 and 23 respectively. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate exchange exposure should the need arises. The policies to management interest rate risk have been followed by the Group since prior year and are considered to be effective.

(ii) Sensitivity analysis

The following table illustrates the sensitivity of the Group's (loss)/profit for the year and equity to a possible change in interest rates of +/- 1% (2007: +/- 1%), with effect from the beginning of the year. The calculations are based on the Group's amount of borrowings during the year. All other variables are held constant.

	2008		2007	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	+1%	-1%	+1%	-1%
(Loss)/Profit for the year and equity	<u>518</u>	<u>(518)</u>	<u>(330)</u>	<u>330</u>

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual balance sheet date.

The sensitivity analysis included in the financial statements of the year ended 31 December 2007 has been prepared on the same basis.

36.4 Credit risk

(i) *Summary of exposure*

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the balance sheet date as summarised below:

	2008 HK\$'000	2007 HK\$'000
Trade and other receivables	52,341	54,012
Bills receivable	2,486	6,022
Cash and bank balances	51,770	24,038
	<u>106,597</u>	<u>84,072</u>

(ii) *Risk management objective and policies*

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment. When considered appropriate, customers may be requested to provide proof as to their financial position. Customers who are not considered creditworthy are required to pay in advance or on delivery of goods. Payment record of customers is closely monitored. Overdue balances and significant trade receivables are highlighted. The finance director will determine the appropriate recovery actions. It is not the Group's policy to request collateral from its customers.

The credit risk for liquid funds is considered negligible as the counterparties are reputable international banks.

The credit policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

36.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Analysed below is the Group's and Company's remaining contractual maturities for its nonderivative financial liabilities as at 31 December 2008. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay:

Group	On	Less than	6 to less than	1 to	Over	Total
	demand	6 months	12 months	5 years	5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2008						
Trade and other payables	682	23,749	–	–	–	24,431
Accruals	–	13,690	–	–	–	13,690
	<u>682</u>	<u>37,439</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>38,121</u>
2007						
Trade and other payables	435	28,220	–	–	–	28,655
Accruals	–	16,197	–	–	–	16,197
Borrowings	–	1,631	1,666	14,658	22,045	40,000
	<u>435</u>	<u>46,048</u>	<u>1,666</u>	<u>14,658</u>	<u>22,045</u>	<u>84,852</u>
Company	On	Less than	6 to less than	1 to	Over	Total
	demand	6 months	12 months	5 years	5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2008						
Accruals	–	64	–	–	–	64
2007						
Trade and other payables	–	90	–	–	–	90

At 31 December 2008, it is not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the amount is not included in the table above.

37. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to adjusted capital ratio. For this purpose, net debt includes trade and other payables, deposits and accruals, borrowings and tax payable less cash and cash equivalents. Adjusted capital comprises all components of equity. The Group's goal in capital management is to maintain the net debt to adjusted capital ratio to a reasonable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital at the balance sheet date was:

	2008 HK\$'000	2007 HK\$'000
Current liabilities		
Trade and other payables	24,431	28,655
Deposits and accruals	38,028	37,892
Borrowings	—	3,297
Tax payable	3,175	1,231
	<u>65,634</u>	<u>71,075</u>
Non-current liabilities		
Borrowings	—	36,703
Deferred tax liabilities	4,008	2,147
	<u>4,008</u>	<u>38,850</u>
Total debt	69,642	109,925
Less: Cash and cash equivalent	<u>(51,770)</u>	<u>(24,038)</u>
Net debt	<u>17,872</u>	<u>85,887</u>
Adjusted capital	<u>382,637</u>	<u>395,390</u>
Debt-to-adjusted capital ratio	<u>5%</u>	<u>22%</u>

The net debt-to-adjusted capital ratio decreased significantly mainly due to the repayment of bank borrowing and the increase in cash and cash equivalent from the Share Placing as mentioned in note 27(ii).

38. POST BALANCE SHEET EVENTS

- (a) On 19 March 2009, the Group has entered into a service agreement with Alfa Faith Investment Limited (“Alfa”), a company which is wholly and beneficially owned by the sister and brother-in-law of Mr. Choi Hip Ming, William, an executive director of the Company who was appointed on 1 January 2009 and subsequently resigned on 22 April 2009. Alfa has been providing the transportation and logistics Services (the “Services”) to the Group. According to the agreement, Alfa has agreed to provide the Services pursuant to the purchase orders placed by the Group for a term of three years commencing from 1 January 2009. In consideration of the Services to be provided by Alfa under the agreement, the Group shall pay Alfa a service fee in pursuant with the terms of the purchase orders, which shall be agreed after arm’s length negotiations between Alfa and the Group. The aggregate fee to be payable by the Group to Alfa under the agreement shall be subject to the annual cap of HK\$4,000,000.

- (b) On 20 March 2009, the Group proposed to implement the capital reorganisation which involves the followings (the “Capital Reorganization”):

(i) *Proposed share consolidation*

The Group proposed to effect the share consolidation pursuant to which every five existing shares of HK\$0.05 each will be consolidated into one ordinary share of HK\$0.25 each (the “Consolidated Share”).

(ii) *Proposed capital reduction and share subdivision*

- The issued share capital of the Company will be reduced through a cancellation of the paid up capital of the Company to the extent of HK\$0.24 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.25 to HK\$0.01;
- The entire amount standing to the credit to the share premium account of the Company as at 22 April 2009 will be reduced and cancelled;
- The credit arising in the book of the Company from the reduction of the paid-up capital of the Company and the cancellation of the share premium account of the Company as at 22 April 2009 will be credited to the contributed surplus account of the Company; and
- Each of the authorised but unissued Consolidated Shares of HK\$0.25 each will be subdivided into 25 new shares of HK\$0.01 each;

Immediately following the Capital Reorganisation, the authorised share capital of the Company will remain as HK\$80,000,000 divided into 8,000,000,000 New Shares with a par value of HK\$0.01 each (the “New Shares”), of which 158,902,712 new shares will be in issue and the aggregate nominal value of the issued share capital of the Company will be approximately HK\$1,589,027. All new shares will rank pari passu in all respects with each other.

- (c) On 22 April 2009, a resolution approving the Capital Reorganisation was duly passed by the shareholders as a special resolution by a way of poll in the special general meeting. All the conditions to which the Capital Reorganisation is subject have been fulfilled and the Capital Reorganisation will become effective on 23 April 2009.

3. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 March 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding banking facilities of HK\$141,500,000 which was secured by certain leasehold land and buildings held by the Group and corporate guarantees provided by certain subsidiaries and the Company. None of the banking facilities was utilised as at 31 March 2009.

Save as aforesaid and apart from intra-group liabilities and normal trade and other payables, as at the close of business on 31 March 2009, the Group did not have any loan capital issued and outstanding or agreed to be issued, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptance (other than normal trade bills), acceptance credits, finance lease or hire purchase commitments, mortgages, charges, guarantees or material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 March 2009.

4. WORKING CAPITAL STATEMENT

The Directors are of the view that, after taking into account the existing unutilised banking and other borrowing facilities available, the existing cash and bank balances and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, the date on which the latest published audited consolidated financial statements of the Company were made up.



Member of Grant Thornton International Ltd

19 May 2009

The Directors
RBI Holdings Limited
7/F, Tower I, South Seas Centre,
75 Mody Road, Tsimshatsui East,
Hong Kong

Dear Sirs

**ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF RBI HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of RBI Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages II-3 to II-4 under the heading of "Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's circular dated 19 May 2009 (the "Circular") in connection with the proposed open offer of new shares of 635,610,848 shares of HK\$0.10 per share of the Company (the "Proposed Open Offer") on the Main Board of The Stock Exchange of Hong Kong Limited. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Proposed Open Offer might have affected the net tangible assets of the Group if the Proposed Open Offer had taken place as at 31 December 2008. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group" in Appendix II of the Circular.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING
ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of the financial positions of the Group had the Proposed Open Offer actually occurred as at 31 December 2008 or any future date.

OPINION

In our opinion:

- a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

Grant Thornton

Certified Public Accountants

13th Floor Gloucester Tower

The Landmark

15 Queen’s Road Central

Hong Kong

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

Introduction

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Open Offer on the unaudited consolidated net tangible assets of the Group as if the Open Offer had taken place on 31 December 2008.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, based on the judgements, estimates and assumptions of the directors of the Company, and because of its hypothetical nature, it may not give a true picture of the actual consolidated net tangible assets of the Group following the Open Offer.

Consolidated net tangible assets of the Group as at 31 December 2008 <i>HK\$'000</i> <i>(Note 1)</i>	Add: Estimated net proceeds from the Open Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group <i>HK\$'000</i>
<u>382,637</u>	<u>61,000</u>	<u>443,637</u>

Consolidated net tangible assets
per Share before completion
of the Open Offer as at the
Latest Practicable Date *(Note 3)*

HK\$2.408

Unaudited pro forma adjusted
consolidated net tangible
assets per Share immediately
following completion of the
Open Offer *(Note 4)*

HK\$0.558

Notes:

1. The consolidated net tangible assets of the Group attributable to the Company's equity holders as at 31 December 2008 of approximately HK\$382,637,000 is extracted from the published annual report of the Company for the year ended 31 December 2008.
2. The estimated net proceeds from the Open Offer of approximately HK\$61.0 million are based on the issue of up to 635,610,848 Offer Shares at the Subscription Price of HK\$0.10 per Offer Share by way of the Open Offer, in the proportion of four Offer Shares to one existing Share held on the Record Date and payable in full on acceptance, less estimated share issue expenses of approximately HK\$2.6 million.
3. Based on 158,902,712 Shares in issue immediately before completion of the Open Offer as at the Latest Practicable Date.
4. Based on 794,513,560 Shares expected to be in issue immediately following completion of the Open Offer, assuming all Qualifying Shareholders take up their entitlements under the Open Offer and the Open Offer had been completed on 31 December 2008.
5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2008.

Set out below is a summary of provisions of the memorandum of association (the “Memorandum of Association”) and bye-laws (the “Bye-laws”) of the Company and certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution

passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days has been given.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

If a clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee(s)) which he represents as that clearing house (or its nominee(s)) could exercise if it were an individual member.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days. All other special general meetings shall be called by notice of at least fourteen (14) clear days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand only. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment

thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or

- (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking

or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should

comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to

an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary

winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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 the omission of which would make any statement herein misleading.

2. SHARE CAPITAL AND SHARE OPTIONS**(a) Share capital**

The authorised and issued capital of the Company as at the Latest Practicable Date were and immediately following completion of the Open Offer will be as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>8,000,000,000</u>	Shares	<u>80,000,000.00</u>
<i>Fully paid Shares in issue or to be issued:</i>		
158,902,712	Shares in issue as at the Latest Practicable Date	1,589,027.12
635,610,848	Offer Shares to be issued pursuant to the Open Offer	6,356,108.48
<u>794,513,560</u>	Shares	<u>7,945,135.60</u>

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Offer Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares in issue on the date of allotment of the Offer Shares in fully-paid form. The Company had no debt securities in issue as at the Latest Practicable Date.

None of the securities of the Company is listed or dealt in on any of the stock exchange other than the Stock Exchange and no such listing or permission to deal is being or proposed to be sought.

(b) Share options

The Company did not have any other options, warrants or other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

There is no arrangement under which future dividends are waived or agreed to be waived.

3. DISCLOSURE OF INTERESTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executives (if any) of the Company had, or was deemed to have, any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange 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 (b) pursuant to section 352 of Part XV of the SFO to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

Name of Director	Interests in the Company or its associated corporation	Capacity in holding interest	Long/short position	No. of Shares/ underlying Shares pursuant to share options	Approximate percentage of securities in the same class of securities (Note 1)
Tsui Ming	The Company	Interest of controlled corporation (Note)	Long	63,891,160	40.21%

Note: Mr. Tsui Ming is the sole beneficial owner and sole director of Lucky Tune, who, as at the Latest Practicable Date, was interested in 63,891,160 Shares. By virtue of the provisions of Part XV of the SFO, Mr. Tsui Ming is deemed to be interested in all the Shares in which Lucky Tune is interested.

4. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable date, so far as is known to any Director or chief executive (if any) of the Company, no other person (not being a Director, chief executive (if any) of the Company) had an interest or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company 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 at general meetings of any member of the Group:

Long position

Name of Shareholder	Capacity	Number of Shares	Percentage of the issued share capital of the Company (Note 1)
Lucky Tune	Beneficial owner	63,891,160	40.21%
Kwong Yat Man (Note 1)	Interest of spouse	63,891,160	40.21%
Kingston Finance Limited	Person having a security interest	63,891,160	40.21%
Kingston Securities Limited	Other	635,610,848	400.00%
Chu Yuet Wah (Note 2)	Interest of controlled corporation	699,502,008	440.21%
Ma Siu Fong (Note 3)	Interest of controlled corporation	699,502,008	440.21%

Note:

- Ms Kwong Yat Man is the spouse of Mr. Tsui Ming. Mr. Tsui Ming is the sole beneficial owner and sole director of Lucky Tune, who, as at the Latest Practicable Date, was interested in 63,891,160 Shares. By virtue of the provisions of Part XV of the SFO, Mr. Tsui Ming is deemed to be interested in all the Shares in which Lucky Tune is interested and Ms Kwong Yat Man is deemed to be interested in all the Shares in which Mr. Tsui Ming is interested.
- Chu Yuet Wah owns 51% of the issued share capital of each of Kingston Finance Limited and Kingston Securities Limited. By virtue of the provisions of Part XV of the SFO, Chu Yuet Wah is deemed to be interested in all the Shares in which each of Kingston Finance Limited and Kingston Securities Limited is interested.
- Ma Siu Fong owns 49% of the issued share capital of each of Kingston Finance Limited and Kingston Securities Limited. By virtue of the provisions of Part XV of the SFO, Ma Siu Fong is deemed to be interested in all the Shares in which each of Kingston Finance Limited and Kingston Securities Limited is interested.

5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2008, being the date to which the latest published audited consolidated accounts of the Group were made up.

6. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries during the period commencing two years preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

1. the Underwriting Agreement; and
2. the conditional placing agreement entered into between the Company and Kingston Securities Limited dated 23 May 2008 in relation to the placing of 66,000,000 shares of HK\$0.10 each of the Company at a placing price of HK\$0.53 per placing share.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries or associated companies, excluding contracts expiring within one year without payment of compensation other than statutory compensation.

9. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER**Registered office**

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong	7th Floor, Tower 1 South Seas Center 75 Mody Road Tsimshatsui East Kowloon Hong Kong
Authorised representative	Mr. Chau Kai Man Mr. Lee Kin Fai
Company secretary	Mr. Lee Kin Fai CPA, FCCA, MBA
Legal advisers to the Company	<i>As to Hong Kong law:</i> Leung & Lau 13th Floor Public Bank Centre 120 Des Voeux Road Central Hong Kong <i>As to Bermuda law:</i> Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong
Auditors	Grant Thornton 13th Floor Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Share registrar and transfer office	Tricor Tengis Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	Shanghai Commercial Bank Limited Hang Seng Bank Limited
Underwriter	Kingston Securities Limited Suite 2801, 28th Floor One International Finance Centre 1 Harbour View Street Central Hong Kong

EXECUTIVE DIRECTORS

Mr. Chau Kai Man, aged 52, is the chairman and chief executive officer of the Company and is responsible for overseeing the Group's business operations and strategic development. Mr. Chau has over 20 years' experience in sales and marketing and around eight years' experience in company secretarial matters. Prior to joining the Group, he worked as a sales director of a textile company. Mr. Chau joined the Group in 2007. The business address of Mr. Chau is 7th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

Mr. Lee Kin Fai, aged 36, is the financial controller and company secretary of the Company. Mr. Lee is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. He holds a Master degree in Business Administration from the University of Manchester, UK. Prior to joining the Company, he worked in a listed company on the Main Board of the Stock Exchange and an international accounting firm. He has more than 10 years' experience in accounting, audit and taxation field. Mr. Lee joined the Group in 2004. The business address of Mr. Lee is 7th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

NON-EXECUTIVE DIRECTOR

Mr. Tsui Ming, aged 52, has years of working experience in the toy manufacturing business. He headed the production department of a toy manufacturing company for more than eight years, where he was responsible for overseeing and managing staff, production schedule and cost control. The business address of Mr. Tsui is 7th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwong Kwan Ming, aged 58, obtained a diploma in business management awarded jointly by the Hong Kong Polytechnic University and Hong Kong Management Association. Mr. Kwong is enthusiastically dedicated in community service. Mr. Kwong had about 10 years' experience in management of a catering and entertainment company. He currently operates a consultant company providing consultancy services in relation to human resources. The business address of Mr. Kwong is 7th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

Mr. Wu Tak Lung, aged 43, is a fellow member of The Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and The Taxation Institute of Hong Kong. Mr. Wu is also a full member of the Hong Kong Securities Institute and an associate member of The Hong Kong Institute of Certified Public Accountants.

Mr. Wu is an independent non-executive director of (i) Neo-Neon Holdings Limited (stock code: 1868); (ii) Aupu Group Holdings Company Limited (stock code: 477); and (iii) China Water Industry Group Limited (stock code: 1129), all of them are companies listed on the main board of the Stock Exchange; (iv) Finet Group Limited (8317); (v) iMerchants (stock code: 8009), both of them are companies listed on GEM. The business address of Mr. Wu is 7th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

Mr. Leung Chi Kin, aged 59, is the current elected district council member of Shatin. Mr. Leung is devoted to community welfare work and has been the committee member or chairman of various social groups, Mr. Leung was also awarded a Medal of Honour by the Hong Kong Special Administrative Region. The business address of Mr. Leung is 7th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

Mr. Chow King Lok, aged 62, is currently a registered technical director of Hong Kong Building Department, a committee member of Hong Kong Shatin Industries and Commerce Association Ltd., and a director of an engineering company. He has bachelor degree in Mechanical Engineering from Cheng Kung University, Taiwan. The business address of Mr. Chow is 7th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

10. EXPERT AND CONSENT

The following is the qualification of the expert whose statement has been included in this circular:

Name	Qualification
Grant Thornton	Certified Public Accountants
Guangdong Securities	a licensed corporation to carry out types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO

Grant Thornton and Guangdong Securities have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion herein of their letters or opinions or reports or reference to their names in the form and context in which it appears.

As at the Latest Practicable Date, Grant Thornton and Guangdong Securities had not had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Grant Thornton and Guangdong Securities have not had any direct or indirect interests in any assets which have been, since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any business day at the principal place of business of the Company in Hong Kong at 7th Floor, Tower 1, South Seas Center, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong from the date of this circular up to and including 19 June 2009, being the Latest Acceptance Date and also be available at the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the section headed “Material contracts” in this appendix;
- (c) the annual reports of the Company for the two years ended 31 December 2007 and 31 December 2008 respectively;
- (d) the report of Grant Thornton on the unaudited pro forma consolidated net tangible assets of the Group as set out in appendix II to this circular;
- (e) the written consent by Grant Thornton and Guangdong Securities referred to in the section headed “Expert and consent” in this appendix; and
- (f) the Companies Act.

12. GENERAL

- (a) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is at 7th Floor, Tower 1, South Seas Center, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.
- (b) The share registrar and transfer office of the Company is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text.

NOTICE OF SGM



NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (“SGM”) of RBI Holdings Limited (“Company”) will be held at 7th Floor, Tower 1, South Seas Center, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Thursday, 4 June 2009 at 9:00 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** subject to and conditional upon The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, the Offer Shares (as defined below) in their fully-paid forms to be allotted to the Qualifying Shareholders (as defined in the circular dated 19 May 2009 (“Circular”) to the shareholders of the Company of which the notice convening the meeting at which this resolution is proposed forms part, a copy of the Circular marked “A” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) by way of open offer as announced by the Company on 27 April 2009:

- (a) the issue by way of open offer (“**Open Offer**”) of 635,610,848 shares of HK\$0.01 each (collectively, the “**Offer Shares**”) to the holders of the shares of HK\$0.01 each of the Company (each, a “**Share**”) whose names appear on the register of members of the Company on the Record Date (as defined in the Circular) in the proportion of four Offer Shares for every Share then held at the subscription price of HK\$0.10 per Offer Share payable in full upon acceptance and otherwise on the terms and conditions set out in the Circular be and is hereby approved;
- (b) the directors of the Company (“**Directors**”) be and are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer provided that in the case of shareholders of the Company whose addresses as shown on the register of members of the Company at the close of business on the Record Date are in any jurisdictions outside Hong Kong, and to whom the Directors, based on the enquiry made by the Company, consider it necessary or expedient not to offer the Offer Shares on account of the legal advice given by the legal counsels of such jurisdictions (“**Excluded Shareholders**”), the Offer Shares shall not be issued to the Excluded Shareholders but shall be taken up by the Underwriter (as defined in the Circular);
- (c) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps or other exclusions or other arrangements in relation to the Excluded Shareholders as they may in their absolute discretion deem necessary, appropriate, desirable or expedient to give effect to or in connection with the Open Offer and the Underwriting Agreement (as defined in the Circular) or any of the transactions contemplated thereunder; and

NOTICE OF SGM

- (d) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Open Offer and the Underwriting Agreement or any transactions contemplated thereunder.”

By Order of the Board
RBI Holdings Limited
Chau Kai Man
Chairman

Hong Kong, 19 May 2009

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

*Principal of place of business
in Hong Kong:*
7th Floor, Tower 1
South Seas Center
75 Mody Road
Tsimshatsui East
Kowloon
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the special general meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the special general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (2) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, at the offices of the Company's branch registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the special general meeting or any adjournment thereof, should he so wish.
- (3) Completion and return of an instrument appointing a proxy should not preclude a shareholder of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (4) As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of a poll.

As at the date hereof, the Company's executive Directors are Mr. Chau Kai Man and Mr. Lee Kin Fai; the non-executive Director is Mr. Tsui Ming and the independent non-executive Directors are Mr. Kwong Kwan Ming, Mr. Wu Tak Lung, Mr. Leung Chi Kin and Mr. Chow King Lok.