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KIN YAT HOLDINGS LIMITED

<http://www.kinyat.com>

(Incorporated in Bermuda with limited liability)

(Stock Code: 638)

DISCLOSEABLE TRANSACTION

IN RELATION TO THE ACQUISITION OF ASSETS FOR ELECTRIC MICRO-MOTORS MANUFACTURING FROM AN INDEPENDENT THIRD PARTY INVOLVING A SCHEME OF ARRANGEMENT OF THE INDEPENDENT THIRD PARTY

A letter from the Board of Kin Yat Holdings Limited is set out on pages 1 to 20 of this circular.

23 December 2008

CONTENTS

	<i>Page</i>
Definitions	1-6
Letter from the Board	
1. Introduction	7-8
2. Background	9
3. Relevant current developments	10-11
4. The subject assets of the Acquisition, the Possible SMM Assets Acquisition and the SMP Assets Acquisition	11-13
5. The Acquisition	14-17
6. Basis for determining the consideration	17-18
7. Financial effects	18-19
8. Reason for and benefits of the Acquisition	19
9. Listing Rules implications	19-20
10. Additional Information	20
Appendix – General Information	21-25

DEFINITIONS

In this circular, the following expressions shall have the meanings set out below:

“Acquisition”	the acquisition of the Fixed Assets and the HP Assets by Smart Electric pursuant to the S&P Agreement dated 22 November 2008
“associates”	has the same meaning as ascribed to it under the Listing Rules
“Bestip”	Bestip Development International Ltd., a company incorporated in British Virgin Islands with limited liability and an intermediary holding company for the operating subsidiaries of Sun Motor Inc
“Board”	the board of Directors
“Company”	Kin Yat Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Fixed Assets and the novation of the HP Agreements as contemplated under the S&P Agreement
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“controlling”	has the same meaning as ascribed to it under the Listing Rules
“Directors”	the directors (including the independent non-executive directors) of the Company
“Dongguan Plant”	東莞鳳崗新生精密五金廠 (translated name for identification purpose only: Dongguan Precision Metal Plant), which is the contract processing (來料加工) factory of SMI in the PRC

DEFINITIONS

“Fixed Assets”	all assets including inventories (i.e. raw materials, work in progress and finished goods), machineries, facility, equipment, tools, instruments, hardware and other materials currently owned and/or employed by the SMI located at Dongguan Plant and in Hong Kong and the productive fixed assets that are located at Dongguan Plant, including without limitation the Fixed Assets on Trust together with such other properties or assets as agreed between SMI and Smart Electric but excluding HP Assets and any tax refund to SMI, all trade and other receivables, all the debts due to SMI by other companies or related companies of the Sun Motor Group, and the amounts due by the directors of SMI
“Fixed Assets on Trust”	certain fixed assets which are currently located at Dongguan Plant and held by Hysan for and on behalf of SMI as declared by Hysan in its declaration of trust dated 4 August 2008
“Freezing Orders”	the freezing orders on certain part of the Fixed Assets or any part thereof granted by Dongguan People’s Court in the PRC or any other court in the PRC in favour of certain PRC creditors of SMI as at the date of the S&P Agreement
“Group”	the Company and its subsidiaries
“Gongming Plant”	深圳市寶安區公明摩打製造廠 (translated name for identification purpose only: Shenzhen Boan Gongming Motor Manufacturing Plant), which is the contract processing (來料加工) factory of SMM in the PRC
“High Court”	the High Court of Hong Kong, Court of First Instance
“HP Agreements”	hire purchase agreements in respect of the HP Assets hired by SMI and employed by it in Dongguan Plant

DEFINITIONS

“HP Novation Agreements”	the agreements to be entered into between SMI, Smart Electric, and the parties to the HP Agreements, under which SMI shall be released from all obligations under the HP Agreements and Smart Electric shall take over from SMI all its outstanding obligations under the HP Agreements as from the date of Completion
“Hysan	Hysan International Investment Limited, a company incorporated in British Virgin Island and a direct wholly-owned subsidiary of Bestip
“HP Assets”	assets hired by SMI under the HP Agreements and employed by it in Dongguan Plant
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	person(s) who or company(ies) together with its/their ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, is/are third party(ies) independent of the Company and connected persons of the Company
“Judgement Creditors”	certain creditors of Dongguan Plant, which had obtained or about to obtain judgements against SMI and/or Dongguan Plant in the relevant court of PRC prior to the date of the S&P Agreement
“KYHK”	Kin Yat (HK) Holdings Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“KYSZ”	Shenzhen Kin Yat Toys Company Limited, a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	17 December 2008, being the latest practical date prior to the printing of this circular for ascertaining certain information for inclusion in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange
“Letter of Intent”	the letter of intent entered into between Bestip and KYHK on 6 March 2008 with respect to the possible acquisition of all productive assets including all inventories of Sun Motor Group, on a non-legally binding basis and subject to contract basis
“Possible SMM Assets Acquisition”	has the meaning ascribed to it in sub-paragraph headed “SMM and Gongming Plant” under the paragraph headed “3. RELEVANT CURRENT DEVELOPMENTS” in the “Letter from the Board” in this circular
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Customs Issues”	the PRC customs duty, penalties and sanctions affecting the Fixed Assets or any part thereof arising out of the imbalance of the quantity of bonded raw materials imported by SMI into the PRC and the quantity of finished goods exported out of the PRC by SMI after processing in the PRC
“S&P Agreement”	the conditional sale and purchase agreement dated 22 November 2008 entered into amongst SMI, Hysan and Smart Electric in relation to the acquisition of the Fixed Assets and the HP Assets by Smart Electric
“Scheme Administrators”	Mr Lai Kar Yan and Mr Darach E. Haughey jointly and severally or their successors appointed pursuant to the Scheme of Arrangement
“Scheme Creditors”	any Person, other than the Group, which has been admitted by the Scheme Administrators as a creditor in accordance with the Scheme of Arrangement
“Scheme Funds”	all funds from time to time credited to the Scheme Trust Account, including any interest thereon

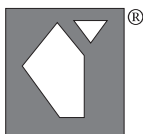
DEFINITIONS

“Scheme Trust Account”	the interest bearing trust account controlled by the Scheme Administrators with a licensed bank in Hong Kong for the purpose of and for the benefit of those entitled under the Scheme of Arrangement
“Scheme of Arrangement”	the scheme of arrangement proposed by the SMI under Section 166 of the Companies Ordinance (Cap. 32) and which was approved by the Scheme Creditors on 10 October 2008 and sanctioned by the High Court on 25 November 2008
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shares”	the shares of par value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Smart Electric”	Smart Electric Motor Company Limited, a company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company
“SMI”	Sun Motor Industrial Company Limited, a company incorporated under the laws of Hong Kong and a direct wholly-owned subsidiary of Bestip
“SMM”	Sun Motor Manufactory Limited, a company incorporated under the laws of Hong Kong and a direct wholly-owned subsidiary of Bestip
“SMP”	Sun Motor Precision Products Limited, a company incorporated under the laws of Hong Kong and a direct 90%-owned subsidiary of Bestip
“SMP Assets Acquisition”	has the meaning ascribed to it in sub-paragraph headed “SMP and Xinfeng Plant” under the paragraph headed “3. RELEVANT CURRENT DEVELOPMENTS” in the “Letter from the Board” in this circular

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sun Motor Group”	Sun Motor International Inc and its subsidiaries
“Sun Motor Inc”	Sun Motor International Inc, a company incorporated under the laws of the State of Wyoming, the Shares of which were traded in the over-the-counter Bulletin Board in the United States of America
“Xinfeng Plant”	新豐縣實業製造廠 (translated name for identification purpose only: Xinfeng Manufacturing Plant), which is the contract processing (來料加工) factory of SMP in the PRC
“Shareholders”	holders of the Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	Percentage

LETTER FROM THE BOARD



KIN YAT HOLDINGS LIMITED

<http://www.kinyat.com>

(Incorporated in Bermuda with limited liability)

(Stock Code: 638)

Board of Directors

Executive Directors:

Mr CHENG Chor Kit (*Chairman*)

Mr FUNG Wah Cheong

Mr WONG Wai Ming

Mr WONG Weng Loong

Independent non-executive Directors:

Mr CHUNG Chi Ping, Roy

Mr WONG Chi Wai, Albert

Ms SUN Kwai Yu, Vivian

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place of
business:*

7th Floor

Galaxy Factory Building

25-27 Luk Hop Street

San Po Kong

Kowloon

Hong Kong

23 December 2008

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

IN RELATION TO THE ACQUISITION OF ASSETS FOR ELECTRIC MICRO-MOTORS MANUFACTURING FROM AN INDEPENDENT THIRD PARTY INVOLVING A SCHEME OF ARRANGEMENT OF THE INDEPENDENT THIRD PARTY

1. INTRODUCTION

On 3 December 2008, the Company announced that on 22 November 2008 SMI (as vendor), Hysan (as trustee of SMI) and Smart Electric (as purchaser and is an indirect wholly-owned subsidiary of the Company) entered into the S&P Agreement pursuant to which (i) SMI and Hysan have conditionally agreed to sell and Smart Electric has conditionally agreed to purchase the

LETTER FROM THE BOARD

Fixed Assets, and (ii) SMI has conditionally agreed to procure the execution of the HP Novation Agreements (to be entered into amongst SMI, the relevant hire purchase lessors and Smart Electric) for the acquisition of the HP Assets by Smart Electric, for a total gross consideration of HK\$65.0 million in cash.

SMI has been working out the Scheme of Arrangement, of which the Acquisition forms part. The net consideration payable by Smart Electric to the Scheme Administrators in respect of the Acquisition is equal to the gross consideration of HK\$65.0 million less (i) all outstanding liabilities, which is subject to a maximum of HK\$29.8 million, owed by SMI and Dongguan Plant to the Group, and (ii) all outstanding balance of the HP Assets of approximately HK\$6.0 million owed by SMI to the hire purchase lessors and to be taken up by Smart Electric. Upon Completion, SMI will be released from all obligations under the HP Agreements and Smart Electric shall take over from SMI all outstanding obligations of an aggregate amount of approximately HK\$6.0 million payable to hire purchase lessors under the HP Agreements. It is the current intention of Smart Electric to either settle such obligations with SMI and the relevant hire purchase lessors by installment payments or by a bullet payment after Completion.

The Directors, to the best of their knowledge, information and belief and having made all reasonable enquiries, confirm that Sun Motor Group and its associates, including SMI and Hysan, the hire purchase lessors under the HP Agreements and the Scheme Administrators are Independent Third Parties.

SMP/Xinfeng Plant has settled the liabilities owed to KYSZ by transferring all machineries and equipment of Xinfeng Plant to KYSZ under the SMP Assets Acquisition. SMM/Gongming Plant may settle the liabilities owed to KYSZ by transferring its productive assets to KYSZ under the Possible SMM Assets Acquisition.

The Acquisition is classified, on an aggregate basis, as a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules and is subject to the relevant reporting and announcement requirements under Chapter 14 of the Listing Rules. The purpose of this circular is to provide Shareholders with further information of, amongst other matters, the Acquisition and other information of the Group in accordance with the requirements under the Listing Rules.

LETTER FROM THE BOARD

2. BACKGROUND

Each of SMI and Hysan is an indirect wholly-owned subsidiary of Sun Motor Inc. The shares of Sun Motor Inc were traded on the over-the-counter Bulletin Board in the United States of America. Sun Motor Inc and its subsidiaries are referred to as Sun Motor Group herein. Sun Motor Group is principally engaged in the design, manufacture and sale of custom-designed and standard electric micro-motors with all its production facilities and equipment located in the PRC. According to the consolidated financial statements of Sun Motor Inc for the year ended 31 March 2007, being the latest audited annual accounts published by Sun Motor Inc, the operations of Sun Motor Inc were established in 1983 in Hong Kong and it had recorded consolidated revenues of approximately US\$55.8 million and a net loss of approximately US\$1.9 million during the financial year ended 31 March 2007.

In seeking to release resources through disposal of assets, the controlling shareholder of Sun Motor Inc approached the Company to explore an opportunity to acquire the assets of Sun Motor Group by the Company. Based on the latest available financial information of Sun Motor Inc, Sun Motor Group has been experiencing financial stress as a consequence of high financial gearing when combined with mixed operating performance. In the wake of financial difficulties, Sun Motor Group was unable to meet certain of its outstanding and due obligations (including the installment payments in respect of the HP Assets) and has been facing a series of legal proceedings both in the PRC and Hong Kong. In particular, in February 2008, a winding-up petition, being Companies Winding-Up No. 66 of 2008 (the “**Winding-up Petition**”), was issued against SMI (a major operating subsidiary of Sun Motor Group) at the High Court by a creditor of SMI. The other major operating subsidiaries of Sun Motor Group are SMM and SMP. Each of Dongguan Plant, Gongming Plant and Xinfeng Plant is the contract processing (來料加工) factory of SMI, SMM and SMP respectively in the PRC.

Following further negotiations between the parties and preliminary due diligence investigations by the Group on the assets of Sun Motor Group, on 6 March 2008, KYHK (an indirect wholly-owned subsidiary of the Company) and Bestip (a direct wholly-owned subsidiary of Sun Motor Inc) entered into a letter of intent (as supplemented by supplemental proposed term sheets from Smart Electric to SMI) pursuant to which Bestip expressed intention to dispose of and the Group expressed intention to acquire all productive assets including all fixed assets and inventories of Sun Motor Group, explicitly on a non-legally binding basis and subject to contract basis. Under the supplemental proposed term sheet dated 9 July 2008 from Smart Electric to SMI, Smart Electric expressed its intention to acquire the Fixed Assets and the HP Assets for a gross consideration of HK\$65.0 million, explicitly on a non-legally binding basis and subject to contract basis.

LETTER FROM THE BOARD

3. RELEVANT CURRENT DEVELOPMENTS

Certain fixed assets of Sun Motor Group in the PRC were and are subject to a number of freezing orders in favour of certain of its creditors. In order to prevent the assets of Sun Motor Group in the PRC from being seized by certain creditors of Sun Motor Group so as to facilitate the acquisition by the Group of the assets of Sun Motor Group, KYSZ (an indirect wholly-owned subsidiary of the Company) has over a period of time (i) on behalf of Dongguan Plant, Gongming Plant and Xinfeng Plant settled certain of their outstanding obligations such as rental and utilities expenses, foreign exchange capital, and wages and compensation, and (ii) assumed the liabilities owed by Dongguan Plant, Gongming Plant and Xinfeng Plant to certain of its respective creditors in the PRC. Such payment of obligations and liabilities assumed by KYSZ have and shall have become outstanding liabilities of Dongguan Plant, Gongming Plant and Xinfeng Plant owed to KYSZ.

SMP and Xinfeng Plant

In the context of a possible acquisition of the productive assets of SMP and Xinfeng Plant, KYSZ has on behalf of SMP/Xinfeng Plant settled certain of its outstanding obligations and assumed certain liabilities of Xinfeng Plant for an amount of approximately HK\$4.4 million in aggregate. Pursuant to a mediation process conducted by the Guangdong Province Xiaoguan City Intermediate People's Court on 13 August 2008, the liabilities owed to KYSZ by Xinfeng Plant were settled by SMP and Xinfeng Plant by transferring all machineries and equipment of Xinfeng Plant to KYSZ (the "**SMP Assets Acquisition**").

SMM and Gongming Plant

As at the Latest Practicable Date, KYSZ has on behalf of SMM/Gongming Plant settled certain its obligations and assumed certain liabilities of Gongming Plant for an amount of approximately HK\$9.8 million in aggregate with a view of facilitating a possible acquisition of the productive assets of SMM and Gongming Plant. It is expected that KYSZ will on behalf of SMM/Gongming Plant settle further obligations of SMM/Gongming Plant for an aggregate amount of approximately HK\$1.1 million. KYSZ has made a demand for repayment of liabilities owed to it by Gongming Plant, and Gongming Plant was ordered to conduct a public auction to dispose of its productive assets including machineries, equipment and inventories for the repayment of such. Baring unforeseen circumstances, the Company expects that the liabilities owed to KYSZ by Gongming Plant will either be fully repaid or settled by transferring all its productive assets to KYSZ (the "**Possible SMM Assets Acquisition**") before the end of 2008.

LETTER FROM THE BOARD

SMI and Dongguan Plant

As at the Latest Practicable Date, KYSZ has on behalf of SMI/Dongguan Plant settled certain of its outstanding obligations and assumed certain liabilities of Dongguan Plant for an amount of approximately HK\$28.7 million in aggregate. It is expected that KYSZ will on behalf of SMI/Dongguan Plant settle further obligations of SMI/Dongguan Plant and other liabilities of Dongguan Plant for an aggregate amount of approximately HK\$1.1 million.

In or about September 2008, SMI has been working out the Scheme of Arrangement under section 166 of the Companies Ordinance (Cap. 32) of Hong Kong with the Scheme Creditors, which involves, inter alia, the disposal of the Fixed Assets to Smart Electric. The scheme meeting of Scheme Creditors was ordered by the High Court to convene on 10 October 2008, and the Scheme of Arrangement was approved in such meeting. Following these developments, the S&P Agreement was entered into amongst SMI, Hysan and Smart Electric on 22 November 2008. Furthermore, the Scheme of Arrangement was sanctioned by the High Court on 25 November 2008.

4. THE SUBJECT ASSETS OF THE ACQUISITION, THE POSSIBLE SMM ASSETS ACQUISITION AND THE SMP ASSETS ACQUISITION

SMI has had engaged a valuation firm, which is an Independent Third Party, to conduct a valuation of the major fixed assets of Sun Motor Group including the HP Assets (the “**Equipment Valuation Report**”) as of 15 April 2008. SMI has also engaged another valuation firm, which is an Independent Third Party, to conduct a valuation of the inventories of Sun Motor Group (the “**Inventory Valuation Report**”) as of 5 May 2008.

The Fixed Assets and the HP Assets

The Fixed Assets and the HP Assets comprise all machineries and equipment, including all inventories, located in Dongguan Plant and employed by SMI in pursuing its electric micro-motor business. The Fixed Assets and the HP Assets comprise mainly mechanical presses, hydraulic presses, workshop equipment, wire cutting machines, electrical discharge machines, injection moulding machines, wire winding machines, welding equipment, ancillary plant equipment, moulds and toolings, office equipment and computer equipment. The inventory part of the Fixed Assets comprises mainly various metal materials, electronic and electrical materials and various other materials used in motors production.

LETTER FROM THE BOARD

According to the Equipment Valuation Report, the value of the fixed asset part of the Fixed Assets and the HP Assets was approximately HK\$59.8 million on a fair market value basis and approximately HK\$23.5 million on a forced liquidation basis. According to the Inventory Valuation Report, the value of the inventory part of the Fixed Assets was approximately HK\$14.1 million on a fair market value basis and approximately HK\$5.1 million on a forced liquidation basis.

According to the financial statements of SMI and Hysan (which held certain fixed assets on behalf of SMI) for the year ended 31 March 2007, being the latest available audited annual accounts of SMI and Hysan, the net book value (cost less accumulated depreciation) of the fixed asset part of the Fixed Assets and the HP Assets (subject to addition, alternation, and disposal since then) was approximately HK\$94.4 million (using an exchange rate of 1 RMB to HK\$1.008) before the accounts payable of approximately HK\$15.8 million in respect of the HP Assets as at 31 March 2007. According to the management information of SMI, the inventory part of the Fixed Assets was accounted for on a weighted average cost basis and at a book value of approximately HK\$22.1 million in April 2008.

The productive assets of SMM/Gongming Plant

The subject assets in respect of the Possible SMM Assets Acquisition comprise all machineries and equipment, including all inventories, located in Gongming Plant and employed by SMM in pursuing its electric micro-motor business. The fixed asset part comprises mainly hydraulic presses (small capacity types), workshop equipment (simple ones for maintenance only), wire winding machines, welding equipment, ancillary plant equipment, toolings, office equipment and computer equipment. The inventory part comprises mainly various metal materials, electronic and electrical materials and various other materials used in motors production.

According to the Equipment Valuation Report, the value of the subject fixed assets of SMM/Gongming Plant was approximately HK\$10.4 million on a fair market value basis and approximately HK\$3.1 million on a forced liquidation basis. According to the Inventory Valuation Report, the value of the subject inventories of SMM/Gongming Plant was approximately HK\$3.7 million on a fair market value basis and approximately HK\$1.5 million on a forced liquidation basis.

LETTER FROM THE BOARD

According to the audited financial statements of SMM and Hysan (which also held certain fixed assets on behalf of SMM) for the year ended 31 March 2007, being the latest available annual accounts of SMM and Hysan, the net book value (cost less accumulated depreciation) of the fixed assets of SMM (subject to addition, alternation, and disposal since then) was approximately HK\$13.9 million (using an exchange rate of 1 RMB to HK\$1.008) as at 31 March 2007. According to the management information of SMM, the inventory part of the Fixed Assets was accounted for on a weighted average cost basis and at a book value of approximately HK\$14.8 million in April 2008.

The productive assets of SMP/Xinfeng Plant

The subject assets in respect of the SMP Assets Acquisition comprise all machineries and equipment located in Xinfeng Plant and employed by SMP in pursuing its electric micro-motor business. The subject assets comprises mainly mechanical presses, hydraulic presses, workshop equipment, wire cutting machine, injection moulding machines, wire winding machines, welding equipment, ancillary plant equipment, moulds and toolings, office equipment and computer equipment.

According to the Equipment Valuation Report, the value of the subject fixed assets of SMP/Xinfeng Plant was approximately HK\$7.2 million on a fair market value basis and approximately HK\$3.3 million on a forced liquidation basis.

According to the audited financial statements of SMP for the year ended 31 March 2007, being the latest available annual accounts of SMP, the net book value (cost less accumulated depreciation) of the subject assets of SMP (subject to addition, alternation, and disposal since then) was approximately HK\$0.9 million as at 31 March 2007.

LETTER FROM THE BOARD

5. THE ACQUISITION

The S&P Agreement

Date

22 November 2008

Parties

- Vendor: SMI as vendor, which is principally engaged in the manufacture and trading of electric micro-motors and is a direct wholly-owned subsidiary of Bestip;
- Trustee: Hysan as trustee of SMI, which is principally engaged in investment holding and is a direct wholly-owned subsidiary of Bestip; and
- Purchaser: Smart Electric

Hysan has declared in its declaration of trust dated 4 August 2008 that it holds the Fixed Assets on Trust as bare trustee for SMI.

Subject matter

The terms and conditions in respect of the acquisition of the Fixed Assets and the HP Assets by Smart Electric from SMI which is the beneficial owner of the Fixed Assets and the hirer of the HP Assets.

Consideration

The gross consideration in respect of the Acquisition is HK\$65.0 million in cash. The net consideration payable by Smart Electric to the Scheme Administrators is equal to the gross consideration of HK\$65.0 million less (i) all outstanding liabilities, which is subject to a maximum of HK\$29.8 million, owed by SMI and Dongguan Plant to the Group, and (ii) all outstanding balance of approximately HK\$6.0 million in respect of the HP Assets. It is expected that the net consideration payable by Smart Electric to the Scheme Administrators shall be in an amount of approximately HK\$29.2 million in cash upon Completion.

LETTER FROM THE BOARD

SMI shall execute and also procure the execution of the HP Novation Agreements, under which SMI shall be released from all obligations under the HP Agreements and Smart Electric shall take over from SMI all its outstanding obligations of approximately HK\$6.0 million payable to the hire purchase lessors under the HP Agreements for the acquisition of the HP Assets by Smart Electric.

Payment terms

The net consideration in respect of the Acquisition shall be payable in cash directly to the Scheme Administrators pursuant to the Scheme of Arrangement and in accordance with the S&P Agreement upon Completion. All monies paid by Smart Electric to the Scheme Administrators for paying into the Scheme Trust Account shall constitute the Scheme Funds when the Scheme of Arrangement becomes effective and such monies shall not be refundable out of the Scheme of Arrangement in all circumstances and Smart Electric has no rights to claim and shall not claim against the Scheme Administrators and the Scheme of Arrangement in this regard.

The consideration and payment terms in respect of the acquisition of the HP Assets will be subject to the terms and conditions of the HP Novation Agreements. As at the Latest Practicable Date, the relevant parties have not finalised the terms and conditions of the HP Novation Agreements.

Summary of the major terms and conditions

Subject to the fulfillment of the conditions precedent set out below, SMI shall sell as beneficial owner and Smart Electric shall purchase the Fixed Assets free from all liens, charges and encumbrances of any nature or kind, other than the Freezing Orders and PRC Customs Issues still outstanding as at the date of the S&P Agreement.

Summary of the major conditions precedent

Completion is conditional upon the fulfillment or the waiver of, amongst other things, the following (the “**Positive Conditions**”):

- (i) the sanction by the High Court of the Scheme of Arrangement;
- (ii) the filing of an office copy of the order of the High Court sanctioning the Scheme of Arrangement to the Registrar of Companies in Hong Kong for registration;

LETTER FROM THE BOARD

- (iii) the granting of an order by the High Court approving the S&P Agreement and the transaction contemplated herein pursuant to Section 182 of the Ordinance;
- (iv) the execution of the HP Novation Agreements by the parties thereto;
- (v) (where applicable) the approval of the shareholders of the Company to all transactions contemplated in the S&P Agreement in accordance with Listing Rules and compliance by the Company and Smart Electric of all applicable laws and regulations and rules in Hong Kong and elsewhere in relation to all transactions contemplated in the S&P Agreement;
- (vi) the waiver or withdrawal of the claims by the Judgement Creditors; and
- (vii) the completion of de-registration of Dongguan Plant.

Furthermore, Completion is conditional upon the fulfillment or the waiver of the condition (the “**Negative Condition**”) that except for the subsisting Winding-up Petition, the Freezing Orders, judgements obtained by the Judgement Creditors and the PRC Customs Issues, no material litigation, arbitration or administrative proceeding in whatever jurisdiction is currently taking place or pending or commenced against SMI or Dongguan Plant, no judgement, order, or ruling by any Court or government body has been made and no settlement of any kind has been made at any time prior to Completion (including but not limited to any claim by any Scheme Creditors against SMI or Dongguan Plant) which may materially affect the transactions contemplated under the S&P Agreement.

If the Positive Conditions set out in above have not been fulfilled, or if any of them has not been waived by Smart Electric, on or prior to 28 February 2009 (or such later date as may be extended by Smart Electric), Smart Electric may terminate the S&P Agreement.

If the Negative Condition has been breached on or before the date of Completion and if such breach has not been waived by Smart Electric in writing, Smart Electric may terminate the S&P Agreement.

In the event Smart Electric exercises its rights to terminate the S&P Agreement pursuant to provisions therein, all monies advanced, deposited or paid by Smart Electric and/or the Group to SMI and/or Dongguan Plant shall be fully refunded to Smart Electric forthwith but without prejudice to the rights of Smart Electric to claim for damages and/or other rights which Smart Electric may have.

LETTER FROM THE BOARD

The major terms and conditions and conditions precedent

The S&P Agreement had been presented, with its major terms and conditions discussed and explained, to the High Court during the hearing of sanctioning the Scheme of Arrangement. The Scheme of Arrangement, which includes the execution of the S&P Agreement, was duly approved and sanctioned by the High Court on 25 November 2008. According to the assessment made by the Company and information given by SMI, the Winding-up Petition will be stayed. Based on the negotiations between SMI and the relevant creditors (excluding the Group) of it, the Directors are informed that the Freezing Orders and the judgements obtained by the Judgement Creditors are likely to be withdrawn. According to SMI, it is not uncommon for a contract processing factory in the PRC to have the PRC Customs Issues and at this stage there is no investigation being carried out by the General Administration of China Customs (“GAC”) on SMI or Dongguan Factory nor has any penalty been imposed by the GAC relating to the PRC Customs Issues. SMI has been using its best endeavour and expects to resolve the PRC Customs Issues. As such, the Directors expect that the Winding-up Petition, the Freezing Orders, the judgements obtained by the Judgement Creditors and the PRC Customs Issues would not have adverse impact on the S&P Agreement.

On 25 November 2008, the Scheme of Arrangement was sanctioned by the High Court and subsequently an order was granted by the High Court approving the S&P Agreement and the transaction contemplated therein pursuant to section 182 of the Ordinance. On 28 November 2008, an office copy of the order of the High Court sanctioning the Scheme of Arrangement was filed to the Registrar of Companies in Hong Kong for registration. As at the Latest Practicable Date, the Positive Conditions (i), (ii) and (iii) were fulfilled.

Nature of the Acquisition

The Acquisition is a pure asset sale and not a sale of the business and undertaking of SMI to Smart Electric. SMI shall be fully liable for all liabilities relating to its business and undertaking notwithstanding S&P Agreement.

6. BASIS FOR DETERMINING THE CONSIDERATION

The gross consideration of HK\$65.0 million in respect of the Acquisition has been determined (i) based on arm’s length negotiations between SMI and Smart Electric on a willing buyer and willing seller basis in view of the financially distressed situation of SMI, (ii) by reference to the range of values assessed under the Equipment Valuation Report and the Inventory Valuation Report; and (iii) the actual outstanding obligations of SMI of approximately HK\$6.0 million under the HP Agreements.

LETTER FROM THE BOARD

In addition to the reference to the Equipment Valuation Report and the Inventory Valuation Report, the Directors have separately assessed the value of the subject assets of Sun Motor Group in respect of the Acquisition, the SMP Assets acquisition and the Possible SMM Assets Acquisition based on the Directors' knowledge and information. The Group has been operating electric micro-motor business since 1999 and the Directors are of the view that they have possessed the necessary knowledge and information with respect to the fair value of the subject assets. In particular, based on the belief and information of the Directors, the current economic condition has not yet induced excessive supply in the second market for sale of used machineries and equipment similar to that of Sun Motor Group that are subject to the acquisitions by the Company.

In sum, the Directors are of the view and are satisfied that the total consideration of approximately HK\$80.3 million (of which approximately HK\$6.0 million is payable to the hire purchase lessors in respect of the HP Assets) in respect of the Acquisition, the Possible SMM Assets Acquisition (if materialised) and the SMP Assets Acquisition on an aggregate basis represents the fair value of the relevant assets in view of the financial distress situation of Sun Motor Group and the current economic condition.

7. FINANCIAL EFFECTS

The Group intends to finance the payment of the remaining investment outlay of the Acquisition and has financed the payment of the investment outlay incurred in respect of the acquisitions of the subject productive assets of Sun Motor Group so far, in an aggregate amount of approximately HK\$80.3 million, mainly by bank borrowings.

In the latest available consolidated financial statements of the Company as at 30 September 2008 (the "**September Accounts**"), the partial payment of the investment outlay of approximately HK\$40.3 million of the acquisitions of the productive assets of Sun Motor Group was accounted for as prepayment and corresponding banking borrowings of the same amount on the balance sheet. As such, based on the total equity of the Company of approximately HK\$804.6 million in the September Accounts, the investment outlay payable or to be incurred by the Group of approximately HK\$40.0 million in relation to the acquisitions of the productive assets of Sun Motor Group including the HP Assets may increase the gearing ratio of the Group (total interest-bearing bank borrowings divided by total equity) by approximately 5.0% to approximately 18.6%. The acquisitions of the subject productive assets of Sun Motor Group including the HP Assets are not expected to have material impact on the Group's net assets and earnings of the Group in the financial year ending 31 March 2009 except that interest expenses, of an estimated annual amount of HK\$2.4 million in relation to the bank borrowings to finance the consideration will be charged to the profit and loss accounts of the Company after completion of the said acquisitions. Based on the total assets of the Company of approximately HK\$1,232.0 million in the September Accounts, the additional bank borrowings in respect of the acquisitions of the subject productive assets of Sun Motor Group, including the HP Assets, may increase the total assets of the Company by approximately HK\$40.0 million.

LETTER FROM THE BOARD

In accordance with the prevailing accounting policies of the Company and assuming the transactions contemplated under the acquisition of the subject productive assets of Sun Motor Group are completed, the plant and equipment and inventories acquired will be stated at cost in the books and records of the Company and will be subject to depreciation and impairment losses, if any, in future. The aforesaid cost of the plant and equipment and inventories acquired comprises their purchase prices and any directly attributable costs of bringing the asset to its working condition and location for its intended use. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

8. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the design, manufacture and sale of (i) toys, (ii) electric micro-motors, (iii) electrical appliances, and (iv) material primarily for use in cathode ray tube and liquid crystal display. As a result of the due diligence investigations on the business operations of Sun Motor Group including the Fixed Assets, the Directors consider that the productive assets of Sun Motor Group are supplementary to that of the Group's core business of sale and manufacture of electric micro-motors. The Directors are optimistic about the long-term prospects of the electric micro-motor business of the Group and are of the view that it is beneficial for the Company to acquire the subject productive assets of Sun Motor Group and the HP Assets given that, *inter alia*, the acquisitions, if materialised, will enhance the economies of scale in the electric micro-motor business of the Group.

The Directors (including all independent non-executive Directors) are of the view that the Acquisition and the terms of the S&P Agreement are fair and reasonable, have been arrived at on arm's length basis and are in the interests of the Company and the Shareholders as a whole.

9. LISTING RULES IMPLICATIONS

Based on the cash balances (including time deposits and deposits with non-bank financial institution) of the Group as at 31 March 2008 of approximately HK\$96.8 million and the consideration in respect of the acquisition of the subject productive assets of Sun Motor Group and the HP Assets represents a substantial portion of such cash balances. The acquisition of the subject productive assets of Sun Motor Group and the HP Assets will result in an increase in the scale of operations of one of the Group's core businesses of electric micro-motor business. As such, the Directors are of the view that such acquisitions may constitute a transaction of price sensitive in nature.

LETTER FROM THE BOARD

Given that the Group has in effect acquired from Sun Motor Group the productive assets of SMP/Xinfeng Plant under the SMP Assets Acquisition for a consideration of approximately HK\$4.4 million and may acquire from Sun Motor Group the productive assets of SMM/Gongming Plant under the Possible SMM Assets Acquisition for a consideration of approximately HK\$10.9 million, the Acquisition, the SMP Assets Acquisition and the Possible SMM Assets Acquisition may be aggregated for the purpose of classification in accordance with the Rule 14.23 of the Listing Rules.

As each of the applicable percentage ratios defined in Rule 14.07 of the Listing Rules, calculated with reference to the relevant consideration in respect of the Acquisition, the consideration in respect of the SMP Assets Acquisition and the possible consideration in respect of the Possible SMM Assets Acquisition, exceeds 5% but is less than 25%, the Acquisition is classified, on an aggregate basis, as a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules and is subject to the relevant reporting and announcement requirements under Chapter 14 of the Listing Rules. A circular containing further information of the Acquisition and other information of the Group will be despatched to the Shareholders as soon as practicable in accordance with the requirements under the Listing Rules.

10. ADDITIONAL INFORMATION

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

Yours faithfully,
On behalf of the Board
Cheng Chor Kit
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts with regard to the Company, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which has been 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 are taken or deemed to have under such provisions of the SFO), or as recorded in the register kept by the Company pursuant to section 352 of the SFO, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code"), were as follows:

(i) Directors' long position in the Shares

Name of Director	Nature of interest/ Capacity	Number of shares	Approximate percentage of issued share capital of the Company (%)
Cheng Chor Kit	Founder of a trust	271,246,000 (Note)	66.30
Fung Wah Cheong	Beneficial owner	4,200,000	1.03
Wong Weng Loong	Beneficial owner	58,000	0.01
Wong Wai Ming	Beneficial owner	40,000	0.01

Note: These shares are held by Resplendent Global Limited (“Resplendent”), a company incorporated in the British Virgin Islands. Padora Global Inc. (“Padora”) is the beneficial owner of all the issued share capital of Resplendent. Padora is a company incorporated in the British Virgin Islands and is wholly owned by Polo Asset Holdings Limited, which is ultimately owned by the trustees of a discretionary trust established by Cheng Chor Kit for his family.

(ii) Directors’ rights to acquire the Shares

As at the Latest Practicable Date, the outstanding interest of the Directors in share options of the Company which were granted to the relevant Directors pursuant to the share option scheme of the Company adopted on 22 August 2002 were summarised as follows:

Name of Director	Number of options outstanding	Number of Shares in respect of the share options held	Exercise price per Share	Date of grant	Exercise period
Cheng Chor Kit	2,000,000	2,000,000	HK\$1.592	14 November 2003	14 November 2006 to 13 November 2013
	1,300,000	1,300,000	HK\$1.03	4 October 2006	4 October 2009 to 3 October 2016
	1,200,000 (Note)	1,200,000	HK\$1.03	4 October 2006	4 October 2009 to 3 November 2016
Fung Wah Cheong	700,000	700,000	HK\$1.03	4 October 2006	1 August 2007 to 3 October 2016
	2,500,000	2,500,000	HK\$2.52	8 October 2007	1 August 2008 to 7 October 2017
Wong Weng Loong	150,000	150,000	HK\$1.03	4 October 2006	4 October 2009 to 3 October 2016
	500,000	500,000	HK\$1.99	14 March 2008	14 March 2009 to 13 March 2018
Wong Wai Ming	296,000	296,000	HK\$1.03	4 October 2006	4 October 2009 to 3 October 2016

Note: These share options are held by Cheng Chor Kit’s spouse.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the Directors nor chief executive of the Company had or was deemed to have interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of shareholders discloseable pursuant to the SFO

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, 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 other member of the Group:

(i) Substantial shareholders of the Company

Name	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company (%)
Cheng Chor Kit <i>(Note)</i>	Through a controlled corporation	271,246,000	66.35
Resplendent Global Limited <i>(Note)</i>	Corporate	271,246,000	66.35
Padora Global Inc. <i>(Note)</i>	Corporate	271,246,000	66.35
Polo Asset Holdings Limited <i>(Note)</i>	Corporate	271,246,000	66.35

Note: These shares were held through Resplendent, in which Padora is the beneficial owner of all the issued share capital of Resplendent. Padora is wholly owned by Polo Asset Holdings Limited, which is ultimately owned by the trustees of a discretionary trust established by Cheng Chor Kit for his family.

(ii) Substantial shareholders of other members of the Group

Name of shareholders	Name of the subsidiary of the Company	Number of shares or registered and paid up capital held	Approximate percentage of issued share capital or paid-up capital of the member of the Group (%)
The Sixth Geological Team of Shaanxi Provincial Bureau of Geological Minerals Exploration and Development (陝西省地質礦產勘查開發局第六地質隊)	Xian Jinshi Mining Company Limited (西安金石礦業有限公司)	RMB3,000,000	30.00

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, 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 other member of the Group.

3. LITIGATION

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

4. DIRECTORS' SERVICE CONTRACTS

Mr Cheng Chor Kit has entered into a service contract with the Company commencing 1 August 2005 without a fixed term but subject to termination by either party giving not less than six month's notice in writing to the other party. Each of Mr Fung Wah Cheong, Mr Wong Weng Loong and Mr Wong Wai Ming has entered into a service contract with the Company for a term of three years commencing 26 August 2008, 4 October 2006 and 1 January 2007, respectively, which is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws unless terminated by either party giving not less than six month's notice in writing to the other party, the termination of which should not be later than the end of the three years.

Save as disclosed above, none of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business apart from the Company's business which competes or is likely to compete, either directly or indirectly, the Company's business, or which would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder.

6. GENERAL

- (a) The secretary of the Company is Mr CHAN Ho Man, Daniel (*FCCA, AHKICPA*).
- (b) Mr WONG Wai Ming, Raymond (*FCCA, FCPA*), has been appointed as the qualified accountant for the purpose of Rule 3.24 of the Listing Rules.
- (c) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda. The head office and principal place of business of the Group is at 7th Floor, Galaxy Factory Building, 25-27 Luk Hop Street, San Po Kong, Kowloon, Hong Kong. The share registrar of the Company is Butterfield Fulcrum Group (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda and the Hong Kong branch 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.
- (d) The English text of this circular shall prevail over the Chinese text.