



# RUILI HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)  
(Stock Code: 00491)

## NOTIFIABLE TRANSACTION

On 30th April, 2004, the RWTL Agreement was entered into between RTCL and Star Shanghai, pursuant to which, *inter alia*, RTCL sold and Star Shanghai purchased the entire paid-up registered share capital of RWTL.

In the opinion of the Company, the RWTL Agreement constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules as the total assets of RWTL represents less than 25% of the total assets of the Company as at 31st December, 2003 shown in its latest published interim report. The Listing Division has indicated that it has reservations about this classification and that in its opinion the transaction may be a major transaction or a very substantial disposal if an alternative test (not in the Listing Rules) is applied in which gross profits of RWTL are expressed as a percentage of gross consolidated profits of the Company. **Shareholders and investors are advised to exercise extreme caution in dealing in the shares of the Company.**

### RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:38 a.m. on 12th May, 2004 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading with effect from 9:30 a.m. on 13th May, 2004.

### RWTL AGREEMENT

A summary of the RWTL Agreement is as follows:

Date:	30th April, 2004
Parties:	(1) RTCL, a wholly-owned subsidiary of the Company (as Vendor); and (2) Star Shanghai (as Purchaser);
Terms:	RTCL sold and Star Shanghai purchased the entire paid-up registered share capital of RWTL
Consideration:	HK\$400,000 on arm's length basis by reference to RWTL's latest financial statements and negotiations between the parties which took into account the operations of RWTL, its future outlook and amounts outstanding and claims against RWTL. It was satisfied in cash on Completion.
Completion:	Completion took place on signing and RWTL is no longer a subsidiary of the Company

### RELATIONSHIP BETWEEN THE PARTIES

Star Shanghai is beneficially and ultimately owned by Wang Gang as an investment holding company which is used as a special purpose vehicle by Wang Gang to invest in RWTL. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Star Shanghai and Wang Gang is a third party independent of the Company and its connected persons.

### RWTL

RWTL is a PRC-incorporated company which was established on 26th June, 2001 by Welback Enterprises Limited which was an indirect non-wholly owned subsidiary of the Company. RWTL has been wholly owned by the Company since 7th July, 2003 when the remaining 49% in its registered capital was acquired at a consideration of HK\$7,062,678.55. It is principally engaged in the manufacture and sale of digital cameras, multi-media electronic products, toys and games products.

To establish a fair value for RWTL before sale, a special audit conducted by 深圳市鵬城會計事務所有限公司 was carried out on RWTL using PRC generally accepted accounting principles in connection with the RWTL Agreement. As at 31st March, 2004 as shown in those audited accounts (the "Special Audit Accounts"), RWTL had total assets of approximately RMB20,516,933 (approximately HK\$19,355,597) representing some 44% of its total assets at 31st December, 2003 largely as a result of provisions for bad and doubtful debts. At the same date it had a net asset deficit of approximately RMB7,931,346.31 (approximately HK\$7,482,401). Based on the audited financial statements of RWTL for 2002 and 2003, its net profit before and after tax for the last two financial years were approximately RMB1,436,329 (approximately HK\$1,355,027) for the year ended 31st December, 2003 and approximately RMB481,371 (approximately HK\$454,124) for the year ended 31st December, 2002. Its financial statements did not record any tax expenses. Based on the same financial statements:

Net asset value of RWTL at 31st December, 2003 was RMB14,502,753.99 (approx. HK\$13,681,843).

Net asset value of RWTL at 31st December, 2002 was RMB4,153,201.79 (approx. HK\$3,918,115).

Total asset value of RWTL at 31st December, 2003 was RMB46,174,376.21 (approx. HK\$43,560,732).

Total asset value of RWTL at 31st December, 2002 was RMB27,238,320.44 (approx. HK\$25,696,529).

An estimated profit of approximately HK\$10.4 million is expected to be recognised by the Group in its financial statements as a result of completing the RWTL Agreement. The reason is that the sale proceeds of the transaction amount to HK\$400,000 and because after the completion of the transaction, the Group no longer recognizes in its financial statements, which are prepared using Hong Kong generally accepted accounting principles and not PRC generally accepted accounting principles, the net liability of RWTL of approximately HK\$10 million as at 31st March, 2004. The difference between the net asset deficit of approximately RMB7,931,346.31 (approximately HK\$7,482,401) as shown in the Special Audit Accounts and the net liability of RWTL of approximately HK\$10 million referred to above is due to accounting differences.

RWTL owes RTCL approximately RMB1.8 million (approximately HK\$1.7 million) in trade debts and SRT RMB3.2 million (approximately HK\$3.02 million) under a loan from SRT to RWTL for working capital purposes. Negotiations have been taking place as to how the RMB1.8 million loan will be settled, which may involve the setting off of future trade debts between RWTL and RTCL. Discussions are also taking place between RWTL and SRT over the settlement of the RMB3.2 million loan which may also involve the setting off of future trade debts between SRT and RWTL. It is expected that after the sale the Company will continue to trade with RWTL on arm's length commercial terms by outsourcing manufacturing to RWTL.

### BENEFITS OF THE TRANSACTION

As stated in the Company's 2004 Interim Report, the Company is focusing on the redevelopment of its products, market expansion, cost minimisation and business diversification. Whilst the Directors regard the business of sale of digital cameras, multi-media electronic products, toys and games products as core to the Group (and it is expected to continue, with some manufacturing being outsourced to RWTL), RWTL itself was not sufficiently profitable (and suffered a loss in the 9 months ended 31st March, 2004 due to reduced turnover that was not accompanied by a corresponding reduction in fixed overhead as well as provision of had and doubtful debts) and therefore was disposed of.

As disclosed in the Company's 2004 Interim Report, legal claims initiated by suppliers in relation to goods and services have been issued against RWTL. As far as the directors of the Company are aware, total claims in respect of these writs and demands amount to approximately RMB7 million (approximately HK\$6.6 million) as at 31st March, 2004. Also disclosed in the Company's 2004 Interim Report, RWTL received a demand in May 2003 from a creditor for repayment of a loan amounting to RMB10 million (HK\$9.4 million) which was due in August 2003. Legal advisers have been appointed to contest these claims. The Directors have been advised by its PRC legal advisers that none of the claims were made against the Company. Star Shanghai has agreed that RTCL will not be liable for any claims or liabilities of RWTL upon Completion. Since the claims were made against RWTL, not the Company and as the Company is a separate legal entity from RWTL, the Company has not at any time, been liable to repay any loans or liabilities of RWTL. Neither the Company or its subsidiaries have acted as guarantor for the loans or liabilities of RWTL. After completion, the Company will no longer recognise in its consolidated financial statements any demands or claims against RWTL.

Information regarding these outstanding loans, claims and demand for repayment of loan was supplied to Star Shanghai in the course of negotiations. It was evident from the negotiations that Star Shanghai made a commercial decision to acquire RWTL at the Consideration notwithstanding these outstanding amounts, claims and demand for repayment of loan.

The Company intends to use the proceeds of sale of HK\$400,000 under the RWTL Agreement as working capital.

The Company will remain active after the disposal of RWTL and details of each of the main operating activities of the Group and the subsidiaries through which they are carried out are as follows:

- trading of digital cameras, multimedia electronic products, toys and games products through RTCL, a wholly-owned subsidiary of the Company. After the RWTL Transaction, RTCL will remain the trading arm of the Group and may place manufacturing orders with RWTL at arm's length;
- provision of services in computer and telecommunication systems integration and trading, software and hardware development services, primarily through SRT (深圳銀河通信息技術有限公司) which is 55% owned by the Company.
- trading of high technology components for telecommunication products through Widax (Hong Kong) Limited which is 100% owned by the Company.

### GENERAL

In the opinion of the Company the transaction under the RWTL Agreement constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules as the total assets of RWTL at 31st March, 2004 represent less than 25% of the total assets of the Company as at 31st December, 2003 shown in its latest published interim report. The Listing Division has indicated that it has reservations about this classification and that the transaction may be a major transaction or even a very substantial disposal if an alternative test (not in the Listing Rules) is applied in which gross profits of RWTL are expressed as a percentage of gross consolidated profits of the Company.

Under the Listing Rules, for the purposes of determining whether a transaction is notifiable, amongst other things certain financial ratios are determined by reference to the "accounts" of a listed issuer (in this case the Company) and any other company involved (in this case RWTL). On this basis, Rule 14.04(2) provides in respect of the Company, the accounts to be used are its latest published audited consolidated accounts for the year ended 30th June, 2003 and Rule 14.04(12) provides that in relation to total assets the most recent published accounts (i.e. those for the period ended 31st December, 2003) are to be used and in the case of RWTL the accounts to be used for the purposes of the comparison are its latest audited accounts (i.e. the Special Audit Accounts). The Company therefore made its determination that the RWTL Agreement was a discloseable transaction by using figures taken from the published consolidated accounts of the Company as at 31st December, 2003 and the Special Audit Accounts. By reference to the numbers in those accounts, the RWTL Agreement is a discloseable transaction only.

The Listing Division has indicated that in its opinion and notwithstanding Rule 14.04(2) the accounts of RWTL that should be used for the purposes of the notifiable transactions rules are those for the year ended 31st December, 2003 notwithstanding that they are not the latest audited accounts of RWTL. The Listing Division has indicated that in its opinion, the calculation of the percentage ratios produced using the Special Audited Accounts produces an anomalous result and is not appropriate and the percentage ratios produced by that comparison should be substituted by other relevant indicators which would if used suggest that the RWTL Agreement would be a major transaction under the asset test using RWTL's audited accounts for the year ended 31st December, 2003 or a very substantial disposal if an alternative test (not in the Listing Rules) is applied in which gross profits of RWTL are expressed as a percentage of gross consolidated profits of the Company. By reference to the gross profit test (proposed by the Listing Division of the Stock Exchange as an alternative test on profitability as the Company incurred a net loss for the year ended 30th June, 2003), the RWTL Agreement would constitute a very substantial disposal transaction.

The RWTL Agreement was completed on signing and, before the announcement was submitted to the Stock Exchange for clearance. The Company is in discussion with the Listing Division about the particular classifications of the RWTL Agreement and the implication of particular classifications.

The Listing Division has also requested the Company to provide information to demonstrate that the Company has a sufficient level of operation or assets to warrant the continued listing of the Company's shares pursuant to Paragraph 13.24 of the Listing Rules.

A circular in relation to the RWTL Agreement will be despatched by the Company to its shareholders as soon as practicable and that circular will set out the determination of what category of notifiable transaction the RWTL constituted and other relevant information.

The Company is an investment holding company. As stated above, the Company, through its subsidiaries is now focusing itself on products development, market expansion, cost minimisation and business diversification. In respect of products development, the Group develops high technology digital cameras, karaoke combo systems with TV and DVD players and high definitions DVD players as mentioned above. It is also constantly exploring opportunities of penetrating its multimedia electronic products into the PRC market.

The Directors (including independent non-executive Directors) believe that the terms of the transaction are fair and reasonable and in the interests of the shareholders as a whole.

### SHAREHOLDERS AND INVESTORS ARE ADVISED TO EXERCISE EXTREME CAUTION IN DEALINGS IN THE SHARES OF THE COMPANY.

### RESUMPTION OF TRADING

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### DEFINITIONS

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

"Company"	Ruili Holdings Limited, a company incorporated in Bermuda with limited liability and whose securities are listed on the Stock Exchange;
"Consideration"	consideration paid under the RWTL Agreement;
"Director(s)"	a director(s) of the Company;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"PRC"	The People's Republic of China;
"RTCL"	Ruian Technology Company Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong;
"RWTL"	Ruian Weiye Technology (Shenzhen) Limited, a company incorporated in the PRC;
"RWTL Agreement"	the agreement described in the section headed "RWTL Agreement" in this announcement;
"Special Audit Accounts"	the meaning ascribed to that term in the paragraph headed "RWTL";
"SRT"	深圳銀河通信息技術有限公司 (Shenzhen Yinhetong Information Technology Company Limited) a non-wholly owned subsidiary of the Company incorporated in the PRC which is owned as to 55% by the Company indirectly, 15.75% by 胡宜東 (a Director of the Company), and 14.625% each by 嚴由漢 and 曹垣亮 respectively;
"Star Shanghai"	Star Shanghai International Limited, a company incorporated in the British Virgin Islands and beneficially and ultimately owned by Wang Gang;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Wang Gang"	王剛, the sole director and shareholder of Star Shanghai;
"HK\$"	Hong Kong dollars;
"RMB"	Renminbi of the People's Republic of China

### DIRECTORS

As at the date hereof, the directors of the Company are:

#### Executive Directors

Wu Jiahong  
Liao Chongde  
Zhang Yiwei  
Hu Yidong  
Lee Kwok Leung, Alan

#### Independent Non-Executive Directors

Li Fui Lung, Danny  
Ng Hoi Yue, Herman

Note: Simply for reference purpose, amounts expressed in RMB have been translated into HK\$ at the rate of HK\$1=RMB1.06

By Order of the Board  
Ruili Holdings Limited  
Wu Jiahong  
Executive Director

Hong Kong, 12th May, 2004