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# C Y FOUNDATION GROUP LIMITED

(incorporated in Bermuda with limited liability)  
(Stock code #1182)

## Share Transaction – Acquisition of T-Matrix Resumption of Trading

The Board announces that on 5 June 2007, (a) the S&P Agreement, and (b) the Share Agreement were entered into, pursuant to which the Purchaser (a variable interest entity of the Company) will, subject to the S&P Conditions, acquire the Interest, being 80% in T-Matrix, at the Total Consideration of maximum of Rmb22,378,408 (equivalent to approximately HK\$22,864,019) which will be settled by (a) the Cash Consideration of a maximum of Rmb7,378,408 (equivalent to approximately HK\$7,538,519), and (b) the Share Consideration of a maximum of 11,145,818 Shares to be issued at a price of HK\$1.375 per Share.

The Acquisition is conditional upon the S&P Conditions to be fulfilled by the Vendors.

Under the Listing Rules, the Share Agreement constitutes a share transaction of the Company.

Trading in the Shares on the Stock Exchange was suspended from 9:30 am on 5 June 2007. The Company has applied to the Stock Exchange for resumption of trading in the Shares from 9:30 am on 7 June 2007.

The Board is pleased to announce that on 5 June 2007, the following agreements were entered into:

1. S&P Agreement, among the Vendors, the Purchaser and T-Matrix; and
2. Share Agreement among the Vendors, the Purchaser, the Company and various nominees of the Vendors who are the intended transferees for the Consideration Shares (being independent of the Company and the connected persons of the Company as defined under the Listing Rules);

in relation to the Acquisition, and pursuant to the said agreements:

1. the Purchaser will, subject to the S&P Conditions, acquire the Interest at the Total Consideration; and
2. the Total Consideration will be settled by the Cash Consideration and the Share Consideration.

### S&P AGREEMENT

#### Terms

Date:	5 June 2007
Vendors:	築銘(北京)企業管理有限公司 Zhuming (Beijing) Enterprise Management Limited and 北京銀河聚陣網絡技術有限公司 Beijing Yinhe Matrix Network Technology Limited, PRC limited companies, which and whose ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company as defined under the Listing Rules
Purchaser:	北京豪升融通貿易有限公司 Beijing Horizon Trading Limited, a PRC limited company, and a 100% controlled variable interest entity of the Company (that is, the Company participates in the majority of the Purchaser's economic impact and consolidates such operations)
Interest:	80% interest in T-Matrix, of which the Purchaser is currently holding the remaining 20% interest
Consideration:	the Total Consideration of a maximum of Rmb22,378,408 (equivalent to approximately HK\$22,864,019) which will be settled by the Cash Consideration and the issue of the Promissory Notes

### S&P Conditions

The Acquisition is subject to the satisfaction of various conditions including (but not limited to):

1. the completion of all necessary filings and registrations with the relevant governing bodies in the PRC regarding the change of ownership and management members, and the various operation licenses of T-Matrix Group (in particular, the 2 sets of 網絡文化經營許可証 network culture operating licences which are for restricted business in PRC) remaining valid and effective subsequent to such filings and changes; and
2. the Management Employees having signed service contracts with T-Matrix Group at terms and format satisfactory to the Purchaser.

### Completion

Completion of the Acquisition shall take place within 10 Business Days from the fulfillment of all S&P Conditions.

In the event of the S&P Conditions not being satisfied on or before the expiry of 1 year from the signing of the S&P Agreement, the Purchaser has the right to terminate the S&P Agreement and all payments made thereunder shall be refunded to the Purchaser in cash.

### **Settlement of the Total Consideration**

The Total Consideration will be settled by the Cash Consideration and the issue of the Promissory Notes which shall be paid in the following manner:

1. Rmb500,000 (equivalent to approximately HK\$510,850), being part of the Cash Consideration, will be paid within 15 Business Days from the date of the S&P Agreement;
2. Rmb6,878,408 (equivalent to approximately HK\$7,027,669), being the balance of the Cash Consideration, and Rmb7,500,000 (equivalent to approximately HK\$7,662,750), being part of the amount under the Promissory Notes, will be paid on or after the expiry of 1.5 months from Completion subject to the control and the management for certain operation licences having been changed as required by laws and as a result of the Acquisition to the Purchaser and remaining valid and effective;
3. Rmb4,500,000 (equivalent to approximately HK\$4,597,650), being part of the amount of the Promissory Notes, shall be paid within 5 Business Days from the expiry of 6 months from Completion subject to the operation of T-Matrix Group remaining normal and satisfactory to the Purchaser; and
4. Rmb3,000,000 (equivalent to approximately HK\$3,065,100), being the balance amount of the Promissory Notes, shall be paid within 5 Business Days from the expiry of 18 months from Completion subject to the Management Employees having remained with T-Matrix Group and are willing to continue to remain with T-Matrix Group at certain terms specified by the Purchaser.

In the event of any of the preceding terms for the payment of any part of the Total Consideration above not being fulfilled, the Purchaser has the sole discretion to terminate the Agreement, to adjust downwards the relevant payment, or to demand compensation from the Vendors.

### **SHARE AGREEMENT**

Date: 5 June 2007

Parties: among the Vendors, the Purchaser, the Company and various nominees of the Vendors who are intended transferees for the Consideration Shares (being independent of the Company and the connected persons of the Company as defined under the Listing Rules)

In relation to: in relation to the Acquisition, the Company agrees to settle the amount represented by the Promissory Notes by the Share Consideration

Issue Price: HK\$1.375 per Consideration Share, representing discount of 18.88% to the average closing price of the Shares in the 5 Business Days prior to signing of the Share Agreement, and a discount of 18.15% to the latest closing price of the Shares by the end of the close of business of the date of the Share Agreement

Issuable Shares: a maximum of 11,145,818 Shares, representing 0.302% and 0.301% of respectively the current issued share capital of the Company and the share capital enlarged thereby

### **Conditions of the Share Agreement**

The Share Agreement is subject to:

1. the Listing Committee approving the listing of and permission to deal in the Consideration Shares; and
2. the S&P Agreement being entered into and remaining valid and effective.

### **Consideration Shares**

The Consideration Shares will be issued under the general mandate granted to the Board by the shareholders of the Company on 22 February 2007, and which mandate has not yet been utilized except for the Consideration Shares.

The Consideration Shares will be issued to certain individuals nominated by the Vendors (being independent of the Company and the connected persons of the Company as defined under the Listing Rules) and will be issued in the same time line of the payment of the Promissory as set out under the heading "Settlement of the Total Consideration" above. The Consideration Shares when issued will rank *pari passu* with all other Shares then in issue.

### **TOTAL CONSIDERATION AND ADJUSTMENT**

The existing 20% interest in T-Matrix was acquired by the Purchaser through auction in PRC in early 2007 at a consideration of Rmb2,621,592 (equivalent to approximately HK\$2,678,480). The original owner of the 20% interest was not connected with the Vendors, save for their being the common shareholders of T-Matrix.

The Total Consideration was determined between the Purchaser and the Vendors on arm's length basis. The amount was based on the Company's assessment on the value of T-Matrix Group at Rmb25 million (equivalent to approximately HK\$25,542,500) in view of (a) its holding of various operating licences (including one that allows a nationwide operation of internet cafes and franchising which is one of the seven active licences currently available in PRC), and (b) its immediately available network of over 1,000 franchised and allied outlets. The amount of the Total Consideration was arrived at after deducting from the assessed value the amount the Purchaser had paid for the remaining 20%, which basis was mutually negotiated and agreed between the Purchaser and the Vendors. The Board emphasizes that the consideration paid for the initial 20% of the interest was comparatively lower as compared to the assessed value or the Total Consideration as it was acquired via an auction and it is not an appropriate measure for the determination of the amount of the Total Consideration.

The Total Consideration will be settled by the Cash Consideration and the Share Consideration. The Cash Consideration will be funded by internal resources of the Group.

In view of the basis for the price determination stated above, and the benefits of the Acquisition to the Group as set out in the section headed "Purpose of the Acquisition" below, the Directors (including the independent non-executive Directors) consider that the Total Consideration is fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Total Consideration will be subject to Adjustment if certain situations occur including, but not limited to, (a) there being material adverse changes to the overall net assets of T-Matrix Group since 31 May 2007 and before Completion; (b) the total debt liabilities of T-Matrix Group as of Completion is in excess of the figures as shown in its accounts as of 31 May 2007; and (c) the early cessation of the employment of any of the Management Employees without the consent of the Purchaser. In particular, in the event of any shortfall of certain particular items in the accounts of T-Matrix Group as of Completion from the financials as of 31 May 2007, the Total Consideration will be adjusted downwards by the shortfall thereof, or in the event of the early cessation of the employment of any of the Management Employees without the consent of the Purchaser, the Total Consideration will be adjusted downwards by Rmb600,000 (equivalent to approximately HK\$613,020) for every early cessation thereof (which will amount to a maximum of Rmb3,000,000 (equivalent to approximately HK\$3,065,100), being the last tranche of payment of the Total Consideration). As set out in the S&P Agreement, the Purchaser also has the right to adjust the Total Consideration downwards on a reasonable basis in a series of events such as the operation turning materially adversely affected. Adjustment will apply first to the Cash Consideration (if not having been fully paid), or otherwise to the Promissory Notes in which case the number of Consideration Shares to be issued will be reduced. There is no limit of the downward adjustment amount under the Adjustment. In the event of the outstanding amount of the Adjustment exceeding and not being able to be covered by the balance of the payment of the Total Consideration, the Vendors are obliged to repay the Purchaser the shortfall thereof in cash.

In view of the exact off-set of the shortfall and the high penalty on the early cessation of the employment of any of the Management Employees at any time during the restricted period, the Directors (including the independent non-executive Directors) consider that the terms of the Adjustment are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company will announce by separate announcement(s) if the Total Consideration is adjusted under the Adjustment.

#### **VENDORS**

The Vendors and their ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company as defined under the Listing Rules.

#### **OPERATION OF T-MATRIX GROUP**

T-Matrix is a limited company incorporated in PRC in September 2003. T-Matrix possesses licences issued by the Ministry of Culture of PRC 中華人民共和國文化部 and which licences allow T-Matrix to (a) operate internet cafes across China and to franchise to other parties to operate internet cafes, and (b) hold and operate online gaming products, animated products and tournament. The business of T-Matrix Group is to (1) own and operate internet cafes across China; (2) assist independent operators to obtain internet cafe licence via the national franchisor licence held by T-Matrix; (3) franchise the T-Matrix brand name to independent internet cafe operators; (4) provide management services to the network of T-Matrix branded internet cafe franchisees; (5) provide value added services such as special entertainment events to internet cafes; (6) provide bulk purchase capabilities to internet cafes by aggregating the purchase requests of internet cafe franchisees; and (7) provide authorization under T-Matrix online gaming licence to host online game tournaments in the franchisee network. Currently, only 10 licences allowing national operation of internet cafes and franchise of internet cafe operations have been issued in China of which only 7 of them remain active. The opening of internet cafe nationwide in China requires such a licence. The holding of the national internet cafe franchise licence provides T-Matrix Group a business niche to operate its own internet cafe outlets, as well as acquire blocks of internet cafe franchisees via its national franchisor license operation. T-Matrix Group currently has more than 1,000 internet cafe franchisees and allied internet cafe partners in over 9 provinces across China. Its current major income is from franchise fees, and management fees and bulk purchase fees under the franchise arrangement.

#### **FINANCIAL INFORMATION OF T-MATRIX**

T-Matrix Group commenced business in 2003. Its accounting figures provided were based on the generally acceptable accounting principles in PRC. The audited consolidated net losses before and after taxation for the year ended 31 December 2006 and 31 December 2005 were Rmb2.17 million and Rmb2.75 million respectively (equivalent to approximately HK\$2.22 million and HK\$2.81 million respectively). The audited consolidated net deficit of T-Matrix Group as at 31 May 2007 is Rmb9.163 million (equivalent to approximately HK\$9.362 million).

Before Completion, T-Matrix is treated as an associate of the Group and its financials are accounted by the equity method of accounting. Upon Completion, the financials of T-Matrix will be consolidated into the accounts of the Group.

#### **FINANCIAL INFORMATION OF THE GROUP**

The audited consolidated net profit and loss before taxation, minority interest and extraordinary items of the Group prepared in accordance with the generally acceptable accounting principles in Hong Kong for the year ended 31 March 2006 and 31 March 2005 were loss of about HK\$22.79 million and profit of about HK\$4.63 million respectively. The audited consolidated net profit and loss after taxation, minority interest and extraordinary items of the Group for the year ended 31 March 2006 and 31 March 2005 were loss of about HK\$22.79 million and profit of about HK\$4.60 million respectively. The latest unaudited consolidated net assets of the Group as adjusted from the interim results as of 30 September 2006 by the published information were about HK\$785.8 million.

## SHAREHOLDING STRUCTURE

The shareholding structure of the Company before and after Acquisition is as follows (assuming there is no other changes in the share capital of the Company, and the maximum number of Consideration Shares are to be issued):

Shareholders	Before and at Completion		After the issue of the first tranche of Consideration Shares (about 1.5 months after Completion)		After the issue of the second tranche of Consideration Shares (about 6 months after Completion)		After the issue of the final tranche of Consideration Shares (about 18 months after Completion)	
	<i>number of Shares</i>	<i>%</i>	<i>number of Shares</i>	<i>%</i>	<i>number of Shares</i>	<i>%</i>	<i>number of Shares</i>	<i>%</i>
Substantial shareholder of the Company	2,646,264,127	71.76	2,646,264,127	71.66	2,646,264,127	71.59	2,646,264,127	71.55
Vendors & its nominees	0	0.00	5,572,909	0.15	8,916,654	0.24	11,145,818	0.30
Public	1,041,157,525	28.24	1,041,157,525	28.19	1,041,157,525	28.17	1,041,157,525	28.15
Total	<u>3,687,421,652</u>	<u>100.00</u>	<u>3,692,994,561</u>	<u>100.00</u>	<u>3,696,338,306</u>	<u>100.00</u>	<u>3,698,567,470</u>	<u>100.00</u>

## PURPOSE OF THE ACQUISITION

One of the core business operations of the Group is an online game platform with major emphasis in the China market. Recently, the Group organized a pilot online gaming tournament in China with close co-operation from T-Matrix Group. The tournament was successful drawing the attention of online gamers.

The Board considers building a large player base critical to the profitable operations of the Group's online tournament game operation. It intends to rapidly increase the size of its player base by expanding into many regions across China. The Board sees that T-Matrix Group's nationwide internet cafes network will drive a large online player base to the Group's online tournament game platform. Hence, the Acquisition provides the Group with an immediate competitive edge in the execution of its aggressive development plan. The Acquisition is also an essential strategic move for the Group's plan to build a franchise of internet cafes operating a proprietary tournament game platform in China. The current management team of T-Matrix Group provides a valuable addition to the Group's know-how and trade secret asset base by bringing in extensive experience and relationship from the internet cafe industry, including internet cafe operations, event sponsorship, game tournament operations, game software sales and installation, equipment purchasing, computer equipment networking, local and national government procedures, government approval processes and government contacts. With the assurance from the employment contracts of the Management Employees, the Group will have an invaluable operation team and on-the-ground sales force to support and fuel its aggressive roll out plans and a successful market penetration in China. Upon the completion of the Acquisition, the Board has the intention to further extend the national coverage of T-Matrix Group's network to more provinces and outlets in China via its national internet cafe licence operation.

## GENERAL

Under the Listing Rules, the Share Agreement constitutes a share transaction of the Company. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

Trading in the Shares on the Stock Exchange was suspended from 9:30 am on 5 June 2007. The Company has applied to the Stock Exchange for resumption of trading in the Shares from 9:30 am on 7 June 2007.

“Acquisition”	the acquisition of the Interest at the Total Consideration pursuant to the S&P Agreement
“Adjustment”	the downward adjustment of the Total Consideration as set out in the section headed “Total Consideration and Adjustment”
“Associates”	has the same meaning ascribed in the Listing Rules
“Board”	the board of Directors
“Business Days”	days (other than Saturdays and Sundays) on which bank in Hong Kong and PRC are open for business
“Cash Consideration”	Rmb7,378,408 (equivalent to approximately HK\$7,538,519)
“Company”	C Y Foundation Group Limited, a company incorporated in Bermuda with limited liability and which securities are listed on the main board of the Stock Exchange
“Completion”	completion of the S&P Agreement
“Consideration Share(s)”	a maximum of 11,145,818 new Shares to be issued by Company as the Share Consideration
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Interest”	the 80% interest in T-Matrix
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Management Employees”	5 employees of T-Matrix Group named by the Purchaser
“PRC”	the People's Republic of China
“Promissory Notes”	a series of promissory notes in a total payable amount of Rmb15,000,000 (equivalent to approximately HK\$15,325,500), to be issued at Completion for the settlement of part of the Total Consideration, and is to be satisfied by the Share Consideration
“Purchaser”	北京豪升融通貿易有限公司 Beijing Horizon Trading Limited, a PRC limited company, and a 100% controlled variable interest entity of the Company



“Total Consideration”	the consideration for the Acquisition, being a maximum of Rmb22,378,408 (equivalent to approximately HK\$22,864,019) (subject to Adjustment), which will be settled by the Cash Consideration and the issue of the Promissory Notes
“T-Matrix”	零度聚陣文化有限公司 T-Matrix Culture Company Limited, a PRC limited company, and is currently owned by the Purchaser as to 20%
“T-Matrix Group”	T-Matrix and its subsidiaries, the business of which is set out in the section headed “Operation of T-Matrix Group”
“Share(s)”	share(s) of HK\$0.001 each in the share capital of the Company
“Share Agreement”	the agreement entered into among the Vendors, the Purchaser, the Company and various nominees of the Vendors in relation to the Share Consideration
“Share Consideration”	the issue of the Consideration Shares for the settlement of the Promissory Notes
“S&P Agreement”	the agreement entered into among the Vendors, the Purchaser and T-Matrix in relation to the Acquisition
“S&P Conditions”	the conditions of the Acquisition as set out in the section of “S&P Conditions”
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	築銘(北京)企業管理有限公司 Zhuming (Beijing) Enterprise Management Limited and 北京銀河聚陣網絡技術有限公司 Beijing Yinhe Matrix Network Technology Limited, PRC limited companies and are independent third parties, who are not connected persons of the Company as defined under the Listing Rules
“HK\$”	Hong Kong dollar(s), the currency of Hong Kong
“Rmb”	Renminbi, the currency of the PRC

\* the exchange rate of Rmb/HK\$ is taken at 1.0217 for the purpose of this announcement

By order of the board  
**Cheng Chee Tock Theodore**  
Chairman

Hong Kong, 6 June 2007

*As at the date hereof, the executive directors of the Company are Mr Cheng Chee Tock Theodore (Chairman), Dato Poh Po Lian, and Mr Sam Woelm (chief executive officer); non-executive director is Mr Wu Chuang John; and the independent non-executive directors are Mr Sze Tsai Ping Michael, Dr Chow Steven, and Mr Wang Shan Chuan.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

Please also refer to the published version of this announcement in South China Morning Post - Business and China Daily.