

# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

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## SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1217)**

**PROPOSED RIGHTS ISSUE OF NOT LESS THAN 3,000,120,000 RIGHTS SHARES  
AND NOT MORE THAN 3,838,992,000 RIGHTS SHARES  
AT HK\$0.04 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE  
(IN THE PROPORTION OF 10 RIGHTS SHARES FOR  
EVERY SHARE HELD ON THE RECORD DATE);**

**PROPOSED INCREASE IN THE AUTHORISED  
SHARE CAPITAL OF THE COMPANY;**

**PROPOSED REFRESHMENT OF SCHEME MANDATE LIMIT;**

**CHANGE IN BOARD LOT SIZE;**

**PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING OF THE COMPANY**

Financial adviser to the Rights Issue

**COMMERZBANK** 

Commerzbank AG Hong Kong Branch

Underwriter to the Rights Issue



恒明珠證券有限公司  
ETERNAL PEARL SECURITIES LTD.

Independent financial adviser to the  
Independent Board Committee and the Independent Shareholders

**VINCO** 

Grand Vinco Capital Limited

A letter of advice from Grand Vinco Capital Limited, the independent financial adviser, containing its opinion and advice to the Independent Board Committee (as defined herein) and the Independent Shareholder is set out on pages 34 to 47 of this circular. A letter of advice from the Independent Board Committee is set out on page 33 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Suites 2305-2307, 23rd Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong on Tuesday, 9 October 2007 at 10:00 a.m. or any adjournment is set out on pages 89 and 93 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete and return the accompanying form of proxy, to the Company's branch share registrar in Hong Kong, Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong during the period up to Sunday, 30 September 2007 and at Room 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong effective on Monday, 1 October 2007 as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter (as defined herein), by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed "Termination of the Underwriting Agreement" on pages 6 to 7 and pages 19 to 20 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue (as defined herein) will not proceed.

The Shares (as defined herein) will be dealt in on an ex-rights basis from Wednesday, 3 October 2007. Dealing in the Rights Shares in the nil-paid form will take place from Monday, 15 October 2007 to Tuesday, 23 October 2007 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled and/or, in respect of conditions that are waivable, waived (as the case may be), on or before Wednesday, 31 October 2007 (or such later time and/or date as the Company and the Underwriter may agree in writing), or the Underwriting Agreement is terminated, the Rights Issue will not proceed and the Rights Issue will lapse.

Any person contemplating buying or selling the Shares from the date of the Announcement (as defined herein) up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Monday, 15 October 2007 to Tuesday, 23 October 2007 (both dates inclusive), shall bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholder or other persons contemplating dealings in the Shares or nil-paid Rights Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

17 September 2007

# CONTENTS

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Termination of the Underwriting Agreement</b> .....	6
<b>Expected timetable</b> .....	8
<b>Letter from the Board</b> .....	10
<b>Letter from the Independent Board Committee</b> .....	33
<b>Letter from Vinco</b> .....	34
<b>Appendix I – Financial information</b> .....	48
<b>Appendix II – Unaudited pro forma financial information</b> .....	68
<b>Appendix III – General information</b> .....	72
<b>Notice of EGM</b> .....	89

## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 16 August 2007 in relation to the Rights Issue
“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which licensed banks generally are open for business in Hong Kong throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CSTIND”	中華人民共和國國防科學技術工業委員會(Commission of Science Technology and Industry for National Defense of the PRC) *
“Company”	Sino Technology Investments Company Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company from time to time
“EAF(s)”	the form(s) of application of excess Rights Shares
“EGM”	the extraordinary general meeting of the Company to be convened on Tuesday, 9 October 2007 for the purpose of considering, among other matters, the Rights Issue, the increase in the authorised share capital of the Company, the amendments to the Articles of Association and the refreshment of Scheme Mandate Limit
“Eligible Participant(s)”	any full-time employees of the Company, Directors (including non-executive and independent non-executive Directors), part time employee of the Company with weekly working hours of 15 hours and above or of any of the subsidiaries of the Company; any advisor or consultant (in the areas of financial or corporate managerial) of the Company or any of the subsidiary of the Company; any advisor, consultant, agent or business affiliates who, in the sole determination of the Board, have contributed or may contribute to the Group, eligible for Options under the Share Option Scheme

## DEFINITIONS

“Exercise Price”	an initial exercise price of HK\$0.33 per Warrants Share (subject to adjustment) at which holder(s) of the Warrants may subscribe for the Warrants Shares
“Group”	the Company and its subsidiaries from time to time
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all of the three independent non-executive Directors which was established for the purpose of considering and advising the Independent Shareholders in connection with the Rights Issue
“Independent Shareholders”	Shareholders except those who are Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates and hold Shares as at the date of the EGM and Mr. Lin
“Independent Third Party(ies)”	person(s) which is/are third party(ies) independent of the Company and its connected person(s) as defined under the Listing Rules
“Last Trading Date”	16 August 2007, being the last trading day of the Shares on which the Warrants Subscription Agreement and the Underwriting Agreement were entered into
“Latest Acceptance Time”	expected to be 4:00 p.m. on Friday, 26 October 2007 or such later time as may be agreed between the Underwriter and the Company, being the latest time for acceptance of the offer of Rights Shares
“Latest Practicable Date”	11 September 2007, being the latest practicable date for ascertaining certain information refused to in this document prior to the printing of this document
“Latest Time for Termination”	expected to be 4:00 p.m. Wednesday, 31 October 2007, being the latest time by which the Underwriter may terminate the Underwriting Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lin”	Mr. Lin Zhiqun Brett, a former executive Director and a current Shareholder

## DEFINITIONS

“Mr. Xiang”	Mr. Xiang Xin, an executive Director and a Shareholder
“NDRC”	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC) *
“Non-qualifying Shareholder(s)”	Overseas Shareholder(s) in respect of whom the Directors consider it is necessary or expedient not to offer the Rights Shares to such Overseas Shareholder(s) on account of either restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that jurisdictions
“Options”	options (other than the Outstanding Options) to be granted by the Company to subscribe for Shares in accordance with the Share Option Scheme
“Outstanding Options”	the options granted by the Company to subscribe for an aggregate of 23,904,000 Shares pursuant to the Share Option Scheme, which are outstanding as at the Latest Practicable Date
“Overseas Shareholder(s)”	the Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued in connection with the Rights Issue
“PRC”	the People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, Macau Special Administration Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus to be despatched by the Company in relation to the Rights Issue
“Prospectus Posting Date”	Thursday, 11 October 2007 or such other date as may be agreed between the Underwriter and the Company
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Non-qualifying Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	Tuesday, 9 October 2007 or such other date as may be agreed between the Underwriter and the Company

## DEFINITIONS

“Refreshment of Scheme Mandate Limit”	the proposed refreshment of the Scheme Mandate limit under the Share Option Scheme
“Registrar”	Union Registrars Limited, the branch share registrar of the Company
“Rights Issue”	the proposed issue of the Rights Shares by the Company on the basis of 10 Rights Share for every Share held by the Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the issue
“Rights Issue Documents”	the Prospectus, the PAL and EAF
“Rights Share(s)”	not less than 3,000,120,000 new Shares and not more than 3,838,992,000 new Shares to be issued by the Company pursuant to the Rights Issue
“Scheme Mandate Limit”	the 10% limit on grant of Options by the Company under the Share Option Scheme and any other share option scheme(s) of the Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary shares with par value of HK\$0.01 each in the capital of the Company
“Share Option Scheme”	the share option scheme of the Company adopted on 18 July 2002
“Shareholder(s)”	holder(s) of the Share(s)
“SOASAC”	國務院國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of the State Council of the PRC)*
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	the subscriber of the Warrants, being Ms. Leung Rui Ling Florence or her assignee(s), where appropriate
“Subscription Price”	the subscription price of HK\$0.04 per Rights Share

## DEFINITIONS

“Underwriter/ Eternal Pearl Securities”	Eternal Pearl Securities Limited, an Independent Third Party
“Underwriting Agreement”	the underwriting agreement dated 16 August 2007 entered into between the Underwriter and the Company in relation to the Rights Issue
“Underwritten Shares”	3,000,120,000 Rights Shares (assuming no Outstanding Options and the Warrants are exercised on or before the Record Date) and 3,239,160,000 Rights Shares (assuming all Outstanding Options and the Warrants are exercised in full on or before the Record Date), being all Rights Shares less such number of Rights Shares agreed to be taken up or procured to be taken up by the Underwriter in respect of its pro rata entitlement as a Qualifying Shareholder
“Vinco” or “Independent Financial Adviser”	Grand Vinco Capital Limited, a licensed corporation to carry on business in types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee in relation to the Rights Issue
“Warrants”	the 59,983,200 unlisted warrants issued by Company pursuant to the Warrants Subscription Agreement
“Warrants Issue Price”	HK\$0.01
“Warrants Subscription”	the subscription of the Warrants by the Company pursuant to the Warrants Subscription Agreement
“Warrants Subscription Agreement”	the warrants subscription agreement dated 16 August 2007 entered into between the Company and the Subscriber in relation to the Warrants Subscription
“Warrants Share(s)”	the maximum 59,983,200 new Shares to be issued by the Company upon full exercise of the Warrants pursuant to the Warrants Subscription Agreement
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

*All amounts in RMB have been translated in HK\$ at a rate of HK\$1.03 = RMB 1 in this circular; for illustration only.*

\* *the English translation of Chinese names or words in this circular, where indicated, are included for information purpose, and should not be regarded as the official English translation of such Chinese names or word.*

## TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter reserves the right to terminate the arrangements set out in the Underwriting Agreement by notice in writing to the Company on the occurrence of certain events including the force majeure due to which the success of the Rights Issue would be materially and adversely affected at any time prior to 4:00 p.m. on 31 October 2007 following the Latest Acceptance Time upon due consultation with the Company. Force majeure includes the following:

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature which may in the reasonable 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
- (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 hereof 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, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which may in the reasonable 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 prospect of the Group as a whole; or
- (d) 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, including 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 reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (e) the 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 application regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect materiality and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it; or
- (f) any suspension in the trading of the Shares on the Stock Exchange for more than five consecutive Business Days.



## **TERMINATION OF THE UNDERWRITING AGREEMENT**

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and no party shall have any claim against other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercise such right, the Rights Issue will not proceed.

## EXPECTED TIMETABLE

### EXPECTED TIMETABLE OF THE RIGHTS ISSUE

*The expected timetable for the Rights Issue set out below is indicative. Any consequential changes to the expected timetable will be published by way of public announcement.*

2007

Despatch of the Company's circular with notice of EGM	Monday, 17 September
Last day of dealing in Shares on a cum-rights basis	Tuesday, 2 October
First day of dealing in Shares on an ex-rights basis	Wednesday, 3 October
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:00 p.m. on Thursday, 4 October
Register of members of the Company closes (both dates inclusive)	(Friday to Tuesday), 5 to 9 October
Latest time for return of the form of proxy for use at the EGM	10:00 a.m. on Sunday, 7 October
Date of EGM	10:00 a.m. on Tuesday, 9 October
Announcement of results of EGM on the respective websites of the Company and the Stock Exchange	by 11:00 p.m. on Tuesday, 9 October
Record Date	Tuesday, 9 October
Register of members re-opens	Wednesday, 10 October
Despatch of the Rights Issue Documents	Thursday, 11 October
First day of dealings in nil-paid Rights Shares	Monday, 15 October
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on Wednesday, 17 October
Last day of dealings in nil-paid Rights Shares	Tuesday, 23 October
Latest time for acceptance of and payment for Rights Shares and for application and payment for excess Rights Shares	4:00 p.m. on Friday, 26 October
Effective date of the change in board lot size from 8,000 Shares to 32,000 Shares	Wednesday, 31 October

## EXPECTED TIMETABLE

2007

First day for free exchange of existing share certificates in board lots size of 8,000 Shares for new share certificate in board lots of 32,000 Shares .....	Wednesday, 31 October
First day of odd lot facility of the change in board lots size from 8,000 Shares to 32,000 Shares .....	Wednesday, 31 October
Latest time for termination of the Underwriting Agreement .....	4:00 p.m. on Wednesday, 31 October
Latest time for the Rights Issue to become unconditional .....	4:00 p.m. on Wednesday, 31 October
Announcement of results of acceptance of and excess applications for the Rights Issue to be published in the respective websites of the Company ( <a href="http://www.1217.com.hk/notice.asp">http://www.1217.com.hk/notice.asp</a> ) .....	by 11:00 p.m. on Friday, 2 November
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful excess applications for excess Rights Shares on or before .....	Monday, 5 November
Despatch of certificates for fully-paid Rights Shares on or before ..	Monday, 5 November
Commencement of dealings in fully-paid Rights Shares .....	Wednesday, 7 November
Last day of odd lot facility of the change in board lot size from 8,000 Shares to 32,000 Shares .....	Tuesday, 20 November
Last day for free exchange of existing share certificate in board lots of 8,000 Shares for new certificate in board lots of 32,000 Shares .....	by 4:00 p.m. on Tuesday, 27 November

### Notes:

1. All times in this circular refer to Hong Kong time.
2. The latest time for acceptance of and payment for Rights Shares will not take place if there is:
  - a tropical cyclone warning signal number 8 or above; or
  - a "black" rainstorm warning
  - (a) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the last acceptance date as stated above. Instead the latest time of acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day;
  - (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the last acceptance date as stated above. Instead, the latest time of acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day on which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

LETTER FROM THE BOARD



**SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1217)**

*Executive Directors:*

Mr. Xiang Xin  
Mr. Chan Cheong Yee  
Mr. Kwok Chi Hung  
Mr. Ng Tin Sang

*Registered Office:*

Century Yard, Cricket Square  
Hutchins Drive, P.O. Box 2681 GT  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

*Non-executive Directors:*

Mr. Wang Qing Yu (*Chairman*)  
Mr. Ng Kwong Chue, Paul

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

Suites 2305–2307  
23rd Floor  
Two Chinachem Exchange Square  
338 King's Road  
North Point  
Hong Kong

*Independent Non-executive Directors:*

Mr. David Wang Xin  
Mr. Zang Hong Liang  
Mr. Lee Wing Hang

17 September 2007

*To the Qualifying Shareholders and for information purposes only,  
the holders of the Options and the Warrants*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE OF NOT LESS THAN 3,000,120,000 RIGHTS SHARES  
AND NOT MORE THAN 3,838,992,000 RIGHTS SHARES  
AT HK\$0.04 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE  
(IN THE PROPORTION OF 10 RIGHTS SHARES FOR  
EVERY SHARE HELD ON THE RECORD DATE);  
PROPOSED INCREASE IN THE AUTHORISED  
SHARE CAPITAL OF THE COMPANY;  
PROPOSED REFRESHMENT OF SCHEME MANDATE LIMIT;  
CHANGE IN BOARD LOT SIZE; AND  
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

**INTRODUCTION**

The Directors announced on 16 August 2007 that, the Company proposed to (a) raise not less than approximately HK\$120 million and not more than approximately HK\$153 million, before expenses, by allotting and issuing not less than 3,000,120,000 Rights Shares to the Qualifying Shareholders by way of Rights Issue at a price of HK\$0.04 per Rights Share and not more than 3,838,992,000 Right Shares on the basis of ten Rights Shares for every Share held on the Record Date; (b) increase its authorised share capital from HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each to HK\$50,000,000 divided

## LETTER FROM THE BOARD

into 5,000,000,000 Shares of HK\$0.01 each by the creation of an additional 3,000,000,000 unissued Shares of HK\$0.01 each; (c) change the board lot size; and (d) amend the existing Articles of Association for compliance with Listing Rules Purposes.

On the same date, the Board also announced that the Company entered into the Warrants Subscription Agreement with the Subscriber in relation to a private subscription of 59,983,200 Warrants at the Warrants Issue Price of HK\$0.01 per Warrant. The Warrants entitle the Subscriber to subscribe for the Warrants Shares at an initial Exercise Price of HK\$0.33 per Warrants Shares for a period of three years commencing from the date of issue of the Warrants. Each of the Warrants carries the right to subscribe for one Warrants Share.

The Board also proposes to refresh the 10% Scheme Mandate Limit of the Share Option Scheme to authorise the Directors to grant Options to subscribe up to 10% of the issued share capital as at the date of the EGM.

The purpose of this circular is to give you details regarding (i) the proposed Rights Issue, the proposed increase in authorised share capital; the change in board lot size; the proposed Refreshment of the Scheme Mandate Limit; and the proposed amendments to the Articles of Association; (ii) the recommendation of the Independent Board Committee in relation to the Rights Issue; (iii) a letter of advice from Vinco to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue; and (iv) a notice convening the EGM.

## LETTER FROM THE BOARD

### RIGHTS ISSUE

#### Issue statistics

Basis of Rights Issue:	10 Rights Share for every Share held on the Record Date
Subscription Price:	HK\$0.04 per Rights Share payable in full upon acceptance
Number of Shares in issue as at the Latest Practicable Date:	300,012,000 Shares
Number of Rights Shares to be issued:	Not less than 3,000,120,000 Rights Shares (assuming no exercise of the subscription rights attaching to the Outstanding Options and the Warrants on or before the Record Date) and not more than 3,838,992,000 Rights Shares (assuming full exercise of the subscription rights attaching to the Outstanding Options and the Warrants on or before the Record Date)
Underwriter:	Eternal Pearl Securities Ltd.

As at the Latest Practicable Date, save for the Outstanding Options and Warrants granted under the Share Option Scheme and the Warrants Subscription Agreement and upon the full exercise of such Outstanding Options which 23,904,000 Shares will be allotted and issued and the Warrants which 59,983,200 Warrants Shares will be allotted and issued, the Company has no other outstanding options, convertible securities or warrants which confer the right to subscribe for the Shares.

The Rights Issue will be fully underwritten. The Underwriter has agreed to underwrite not less than 3,000,120,000 Rights Shares and not more than 3,239,160,000 Rights Shares and has made sub-underwriting arrangement with certain sub-underwriters which are Independent Third Parties such that none of the Underwriter and each of the sub-underwriters will be interested in 30% or more of the issued share capital of the Company as enlarged by the Rights Shares upon completion of the Rights Issue. Mr. Lin, being a Substantial Shareholder (as defined under the Listing Rules) and a former Director, has undertaken to the Underwriter and the Company that he agrees to the Rights Issue as well as will not and will not procure to exercise the subscription rights attaching to the 77,696,000 Shares owned by him as at the Latest Practicable Date. Mr. Xiang has also undertaken to the Underwriter and the Company that he will and will procure to subscribe for no less than 291,660,000 Right Shares. As at the Latest Practicable Date, the Subscriber has undertaken to the Company that the Warrants will be exercised on or before 21 September 2007. In addition, the Subscriber has also undertaken to the Company that she will and will procure to exercise the subscription rights attaching to the Warrants Shares owned by her to the extent that the Warrants are exercised.

## LETTER FROM THE BOARD

### Subscription price

The Subscription Price is HK\$0.04 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its relevant provisional allotments of the Rights Issue or applies for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Right Shares. The Subscription Price represents:

- (i) a discount of approximately 87.30% to the closing price of HK\$0.315 per Share quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 98.29% to the closing price of HK\$2.34 per Share quoted on the Stock Exchange on the Latest Practicable Date;
- (iii) a discount of approximately 33.33% to the theoretical ex-rights price of HK\$0.06 per Share based on the closing price per Share on the Last Trading Day;
- (iv) a discount of approximately 89.01% to the average closing price of HK\$0.364 per Share for the last five consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 89.85% to the average closing price of HK\$0.394 per Share for the last 10 consecutive trading days up to and including the Last Trading Day; and
- (vi) a discount of approximately 58.51% of the net asset value per Share of HK\$0.0964 as at 31 August 2007 (based on the latest published unaudited net assets of the Group published on the Stock Exchange's website).

The Subscription Price was determined after arm's length negotiations between the Underwriter and the Company with reference to (i) the current and historical market prices of the Shares and recent market conditions; (ii) the low liquidity of the Shares in the past 6 months before the Announcement; (iii) the discounts rates of the subscription price of the recent rights issues exercises by other listed issuers; and (iv) the fact that each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its shareholding in the Company on the Record Date, the Directors consider the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### Basis of provisional allotments

There are 10 Rights Shares for every Share held by a Qualifying Shareholder on the Record Date. Application for all or any part of a Qualifying Shareholder's provisional allotment can be made only by completing the corresponding PAL and lodging the same with a remittance for the Rights Shares being applied for.

## LETTER FROM THE BOARD

### **Status of the Rights Shares**

The Rights Shares, when allotted, issued and fully paid, will rank pari passu in all respects with the then existing Shares in issue in all respects. Holders of the Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of the allotment and issue of the Rights Shares in their fully paid form. The Right Shares in both their nil-paid and fully-paid forms will be traded in board lot of 32,000 Shares which is the same as the board lot size for trading in Shares on the Stock Exchange after the change in board lot size as detailed in this circular. Dealing in nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

### **Qualifying Shareholders**

The Company will send (i) the Rights Issue Documents to the Qualifying Shareholders; and (ii) the Prospectus to the Non-qualifying Shareholders, for information only. A Shareholder must register as a member of the Company at or before 4:00 p.m. on the Record Date to be qualified for the Rights Issue, and must not be a Non-qualifying Shareholder. For the holders of the Outstanding Options and holders of the Warrants who wish to participate in the Rights Issue, he/she must (i) exercise his/her respective subscription rights in accordance with the relevant procedures specified in the rules of the Share Option Scheme (as regards the holders of the Options) and the Warrants (as regards the holders of the Warrants) on or before 4:00 p.m. on the Record Date; (ii) register as the holders of the Shares allotted pursuant to the exercise of the subscription rights of the Outstanding Options and the Warrants on the Record Date and (iii) not being a Non-qualifying Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholder must lodge any transfers of Shares (together with the relevant share certificate(s)) with the Registrar, at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong during the period up to Sunday, 30 September and at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Hong Kong effective on Monday, 1 October 2007, for registration not later than 4:00 p.m. on Thursday, 4 October 2007.

### **Rights of Non-Qualifying Shareholders**

The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong.

According to the Company's latest register of members, there are no Shareholders whose registered addresses shown in the register of members of the Company are outside Hong Kong. If at the close of business on the Record Date, a Shareholder's address on the Company's register of members is in a place outside of Hong Kong, that Shareholder may not be eligible to take part in the Rights Issue. The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than that in Hong Kong.



## LETTER FROM THE BOARD

In compliance with Rule 13.36(2) of the Listing Rules, the Directors will make enquiries as to whether the allot and issue of Rights Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. 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 Rights Shares to such Overseas Shareholders, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Non-qualifying Shareholders.

The Company will make arrangements for the Rights Shares, which would otherwise have not been provisionally allotted to the Non-qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealing in the nil-paid Rights Shares commences, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be distributed by the Company in Hong Kong dollars to the Non-qualifying Shareholders on a pro rata basis (but rounded down to the nearest cent) to their respective shareholdings on the Record Date, except that individual amounts of less than HK\$100 will not be so distributed but will be retained for the benefit of the Company. Any unsold entitlements of the Non-qualifying Shareholders will be made available for excess application on EAFs by the Qualifying Shareholders.

### **Fractional entitlement to the Rights Shares**

No fractional entitlements or allotments are expected to arise as a result of the Rights Issue.

### **Application for excess Rights Shares**

Qualifying Shareholders may apply for any unsold entitlements of the Non-qualifying Shareholders, any unsold fractions of Rights Shares and any Rights Shares provisionally allotted but not accepted, by way of excess application. Application for excess Rights Shares is made by completing and lodging the EAF together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the suggestions given by the Registrar, but will give preference to topping-up odd lots to whole board lots of Shares. Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the topping-up of odd lots for allocation of excess Rights Shares will not be extended to the ultimate beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) to increase their chances of allotment of the excess Rights Shares prior to the Record Date. If Shareholders whose Shares are held by their nominee(s) would like to have their names registered on the register of members of

## LETTER FROM THE BOARD

the Company, he/she/it must lodge all necessary documents with the Registrar for completion of the relevant registration by 4:00 p.m. on or about Thursday, 4 October 2007. The expected latest time and date for acceptance of Rights Shares is expected to be at 4:00 p.m. on Friday, 26 October 2007, or such later date as may be agreed between the Underwriter and the Company.

### **Closure of register of members**

The register of members of the Company will be closed from (Friday to Tuesday), 5 to 9 October 2007, both dates inclusive, for determination of entitlements under the Rights Issue. No transfer of Shares will be registered during this period.

### **Share certificates and refund cheques**

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted to the Qualifying Shareholders entitled thereto at their own risk on or before Monday, 5 November 2007. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Monday, 5 November 2007 by ordinary post to the applicants at their own risk.

### **Application for listing**

The Shares are currently trading on the Stock Exchange only and in board lots of 8,000 Shares. The Rights Shares in both in their nil-paid and fully-paid forms are expected to be traded in board lots of 32,000 Shares.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. The Shares will not be listed or dealt in on any other stock exchange outside Hong Kong. Apart from the Shares and the Rights Shares, no part of the securities of the Company is listed or dealt in nor is any listing of or permission to deal in securities of the Company being or proposed to be sought on any other stock exchange.

Dealings in the nil-paid Rights Shares are expected to commence on Monday, 15 October 2007 to Tuesday, 23 October 2007. The latest time for splitting of nil-paid Rights Shares will be 4:00 p.m. on Wednesday, 17 October 2007.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC.

## LETTER FROM THE BOARD

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy and other applicable fees and charges in Hong Kong.

### CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon, among other things, each of the following events happening:

- (i) the passing by the Shareholders (other than Mr. Xiang, Mr. Lin and any of the Directors (other than independent non-executive Directors) and the chief executive of the Company and their respective associates if any of them has remained as a Director and/or the chief executive of the Company and holds Shares as at the date of the EGM) at the EGM of an ordinary resolution (such vote shall be taken by way of poll) to approve the Rights Issue and the increase in the authorised share capital of the Company as contained in the EGM notice by no later than the Prospectus Posting Date;
- (ii) the delivery of the resolution of the Board approving and implementing the Rights Issue and the entering into the Underwriting Agreement and the transactions contemplated herein;
- (iii) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong respectively one copy of the Prospectus Documents duly certified by two Directors (or by their agents duly authorized in writing) as having been approved by resolution of the Board (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and otherwise in compliance with the Listing Rules and the Companies Ordinance;
- (iv) the posting of the Prospectus Documents to the Qualifying Shareholders (other than the Non-Qualifying Shareholders) on the Prospectus Posting Date;
- (v) if so required, the Cayman Islands Monetary Authority approving the issue and allotment of the Rights Shares;
- (vi) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment), and not having withdrawn or revoked, the listings of, and permission to deal in, the Rights Shares in their nil-paid form and fully-paid form not later than 15 October 2007, being the expected date of commencement of dealings in the Rights Shares in nil-paid form (or such other date as may be agreed between the Underwriter and the Company);
- (vii) compliance with the performance of all the undertakings and obligations of the Company under the Underwriting Agreement;

## LETTER FROM THE BOARD

- (viii) compliance with the performance of all the undertakings and obligations of the Underwriter;
- (ix) the delivery of the verification notes relating to the Prospectus duly signed by or on behalf of the Directors; and
- (x) letters from the auditors of the Company addressed to the Company reporting on the working capital of the Group, confirming the indebtedness statement and other financial information contained in the Prospectus and consenting to the issue of the Prospectus with inclusion of their names and references thereto.

If the conditions to which the Rights Issue is subject are not fulfilled or waived jointly by the Underwriter and the Company on or before 4:00 p.m. on Wednesday, 31 October 2007 (or such other time or dates as may be agreed between the Company and the Underwriter) or if the Underwriting Agreement is terminated, all obligations and liabilities of the parties under the Underwriting Agreement will forthwith cease and determine and no party will have any claim against the others (save for any antecedent breaches arising out of or in connection with the Underwriting Agreement) save that the Company will remain liable to pay any fees and charges payable to the professional parties under the Rights Issue. As the Rights Issue is subject to the above conditions, it may or may not proceed accordingly.

As at the Latest Practicable Date, only condition numbered (ii) has been fulfilled.

### UNDERWRITING ARRANGEMENTS

#### Underwriting Agreement

Date	16 August 2007
Underwriter	Eternal Pearl Securities Ltd.

To the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Underwriter and their respective ultimate beneficial owners are Independent Third Parties. The Underwriter has agreed to underwrite not less than 3,000,120,000 Rights Shares and not more than 3,239,160,000 Rights Shares.

#### Commission

The Company will pay to the Underwriter an overall underwriting commission of 2.11% of the Subscription Price. The Directors consider that the underwriting commission is on normal commercial terms.

## LETTER FROM THE BOARD

### Termination of the Underwriting Agreement

The Underwriter reserves the right to terminate the arrangements set out in the Underwriting Agreement by notice in writing to the Company on the occurrence of certain events including the force majeure due to which the success of the Rights Issue would be materially and adversely affected at any time prior to 4:00 p.m. on Wednesday, 31 October 2007 upon due consultation with the Company. Force majeure includes the following:

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature which may in the reasonable 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
- (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 hereof of a political, military, financial, economic or other nature (whether or not of the same kind (“ejusdem”) generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which may in the reasonable 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 prospect of the Group as a whole; or
- (d) 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, including 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 reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (e) the 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 application regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect materiality and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it; or
- (f) any suspension in the trading of the Shares on the Stock Exchange for more than five consecutive Business Days.

## **LETTER FROM THE BOARD**

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and no party shall have any claim against other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercise such right, the Rights Issue will not proceed.

### **ADJUSTMENT TO THE OUTSTANDING OPTIONS**

As at the Latest Practicable Date, the Company has 23,904,000 Outstanding Options under the Share Option Scheme, which when exercise in full, 23,904,000 Shares will be allotted and issued.

The Rights Issue will cause adjustments to the subscription price and/or the number of Shares to be issued under the Outstanding Options. The Company will appoint its auditors to review and certify in writing the basis of such adjustments pursuant to the Share Option Scheme and that the adjustments are made on the basis that the proportion of the issued share capital to which a holder of the Outstanding Options is entitled after the adjustments remain the same as that before and are in accordance with the note to Rule 17.03(13) of the Listing Rules. The adjustments to the Outstanding Options shall be made pursuant to the Share Option Scheme and in compliance with the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005. The Company will publish a separate announcement regarding the adjustments to the Outstanding Options and inform the holders of the Outstanding Options of such adjustments accordingly by written notice to each of them as soon as practicable.

### **CHANGE IN BOARD LOT SIZE**

The Board proposes that the board lot size of the Shares for trading on the Stock Exchange will be changed from 8,000 Shares to 32,000 Shares with effect from 31 October 2007 subject to completion of the Right Issue. The change in the board lot size will not affect any of the Shareholders' rights.

Shareholders may submit their existing share certificates in existing board lot of 8,000 Shares each to the Registrar, at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Hong Kong, in exchange for new share certificates in board lot of 32,000 Shares each free of charge during business hours from 31 October to 27 November 2007 (both dates inclusive). Such exchange of share certificates thereafter will be accepted only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each new share certificate in board lot of 32,000 Shares each issued or each existing share certificate submitted, whichever number of share certificate involved is higher. It is expected that the new share certificates will be available for collection from the Company's branch share registrar by the Shareholders within 10 business days after delivery of the existing share certificates to the Registrar for exchange purpose.

## LETTER FROM THE BOARD

As from 31 October 2007, any new share certificate will be issued in board lot of 32,000 Shares each (except for odd lots or where the Registrar is otherwise instructed). All existing share certificates in board lot of 8,000 Shares each will continue to be evidence of title to such Shares and be valid for transfer, delivery and settlement purposes.

Odd lot of the Shares may arise as a result of the change in the board lots size. In order to alleviate the difficulties in trading odd lot of the Shares, the Company has appointed Eternal Pearl Securities to act as the agent to match, on a “best-effort” basis, the sale and purchase of odd lots of Shares arising from the change in board lots from 31 October 2007 up to and including 20 November 2007. Such arrangement is to facilitate the Shareholders who wish to dispose of or top up their odd lot of Shares. Shareholders who wish to take advantage of this facility should contact Mr. Jansen Au of Eternal Pearl Securities Ltd at Units 2901–06, 29/F., Cosco Tower, 183 Queen’s Road Central, Hong Kong (Tel: 3199 0820) during the period. Shareholders should note that the matching of the sale and purchase of odd lot of Shares is not guaranteed.

Shareholders are recommended to consult their licensed securities or other registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers if they are in any doubt about the facility described above.

### CHANGES IN THE SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after the completion of the Rights Issue:

Assuming no subscription rights attaching to the Outstanding Options are exercised on or before the Record Date:

	As at the Latest Practicable Date		Immediately after the exercise of the Warrants but before the Rights Issue		Immediately after the exercise of the Warrants and completion of the Rights Issue assuming that all Qualifying Shareholders have taken up their entitlement in full		Immediately after the exercise of the Warrants and completion of the Rights Issue assuming that none of the Qualifying Shareholders have taken up their entitlements except Mr. Xiang	
	Share	%	Share	%	Share	%	Share	%
Mr. Xiang (Note 1)	87,600,000	29.20	87,600,000	24.33	963,600,000	24.33	379,260,000	9.58
Mr. Lin (Note 2)	77,696,000	25.90	77,696,000	21.58	77,696,000	1.96	77,696,000	1.96
Underwriter/Sub-underwriters/ Placees (Note 5)	-	-	-	-	776,960,000	19.62	2,708,460,000	68.40
Subscriber (and/or the placees) (Note 3, 4)	-	-	59,983,200	16.67	659,815,200	16.67	659,815,200	16.67
Other Public Shareholders	134,716,000	44.90	134,716,000	37.42	1,481,876,000	37.42	134,716,000	3.39
	<u>300,012,000</u>	<u>100.00</u>	<u>359,995,200</u>	<u>100.00</u>	<u>3,959,947,200</u>	<u>100.00</u>	<u>3,959,947,200</u>	<u>100.00</u>
Public Float	<u>134,716,000</u>	<u>44.90</u>	<u>134,716,000</u>	<u>37.42</u>	<u>1,481,876,000</u>	<u>37.42</u>	<u>1,522,227,200</u>	<u>38.44</u>

(Note 5, 6)

## LETTER FROM THE BOARD

Assuming all subscription rights attaching to the Outstanding Options and the Warrants are exercised on or before the Record Date:

	As at the Latest Practicable Date		Immediately after the exercise of the Outstanding Options but before the Warrants and Rights Issue		Immediately after the exercise of the Outstanding Options and the Warrants but before the Rights Issue		Immediately after the exercise of the Outstanding Options, the Warrants and completion of the Rights Issue assuming that all Qualifying Shareholders have taken up his/her/its entitlement in full		Immediately after the exercise of the Outstanding Options, the Warrants, and completion of the Rights Issue assuming that none of the Qualifying Shareholders have taken up his/her/its entitlements except Mr. Xiang	
	Shares	%	Shares	%	Shares	%	Shares	%	Share	%
Directors:										
- Mr. Xiang (Note 1)	87,600,000	29.20	88,560,000	27.34	88,560,000	23.06	974,160,000	23.07	380,220,000	9.00
- Mr. Wang Xin, David	-	-	480,000	0.15	480,000	0.13	5,280,000	0.13	480,000	0.01
- Mr. Ng Kwong Chue, Paul	-	-	1,200,000	0.37	1,200,000	0.31	13,200,000	0.31	1,200,000	0.03
	<u>87,600,000</u>	<u>29.20</u>	<u>90,240,000</u>	<u>27.86</u>	<u>90,240,000</u>	<u>23.5</u>	<u>992,640,000</u>	<u>23.51</u>	<u>381,900,000</u>	<u>9.04</u>
Mr. Lin (Note 2)	77,696,000	25.90	77,696,000	23.99	77,696,000	20.24	77,696,000	1.84	77,696,000	1.84
Subscriber (and/ or the placees) (Note 3, 4)	-	-	-	-	59,983,200	15.62	659,815,200	15.62	659,815,200	15.62
Underwriter/ Sub-underwriters (Placees (Note 5))	-	-	-	-	-	-	776,960,000	18.40	2,947,500,000	69.80
Other Public Shareholders	134,716,000	44.90	155,980,000	48.15	155,980,000	40.64	1,715,780,000	40.63	155,980,000	3.70
	<u>300,012,000</u>	<u>100.00</u>	<u>323,916,000</u>	<u>100.00</u>	<u>383,899,200</u>	<u>100.00</u>	<u>4,222,891,200</u>	<u>100.00</u>	<u>4,222,891,200</u>	<u>100.00</u>
Public float	<u>134,716,000</u>	<u>44.90</u>	<u>155,980,000</u>	<u>48.15</u>	<u>155,980,000</u>	<u>40.64</u>	<u>1,793,476,000</u>	<u>42.47</u>	<u>1,543,491,200</u>	<u>36.55</u>
									(Note 5, 7)	



## LETTER FROM THE BOARD

*Notes:*

1. Mr. Xiang has undertaken to the Underwriter and the Company that he will and will procure to subscribe for not less than 291,660,000 Right Shares.
2. As disclosed in the Announcement, Mr. Lin, being the former Director, has undertaken to the Underwriter and the Company that he will not and will not procure to exercise the subscription rights attaching to the 77,696,000 Shares owned by him.
3. The Subscriber has undertaken to the Company that the Warrants will be exercised on or before 21 September 2007 and will, if required, place out certain Warrant Shares to independent placees so as to ensure the minimum 25% public float of the Company can be maintained after the Rights Issue.
4. The Subscriber has unconditionally undertaken that, the subscription rights attaching to the Warrants Shares will be exercised on or before the date of EGM, and if the Company has proposed/announced to issue new Shares by way of rights issue within the first three months from the date of the Warrants Subscription Agreement, the Subscriber will and will procure to exercise the subscription rights attaching to the Warrants Shares owned by her on or before the Record Date to the extent that the Warrants are exercised.
5. The Underwriter will enter into a placing agreement with China Everbright Securities (HK) Limited (“China Everbright”), the investment manager of the Company, to place out certain Rights Shares to independent placees. Depending on the number of Rights Shares available to the Underwriter upon completion of the Rights Issue, it is proposed that the said placing agreement will result in the placing of up to 650,000,000 Rights Shares to independent placees by China Everbright, representing approximately 15.4% of the enlarged issued share capital of the Company after completion of the Rights Issue (assuming all the subscription rights attaching to the Outstanding Options and the Warrants are exercised in full).
6. the aggregate number of Shares to be held by Mr. Lin, the Subscriber (together with the independent placees of the Warrants Shares after the relevant placing) and the existing other public Shareholders who hold 77,696,000 Shares, 659,815,200 Shares and 134,716,000 Shares respectively, as well as the proposed placing of the 650,000,000 Rights Shares by China Everbright to independent placees.
7. the aggregate number of Shares to be held by Mr. Lin, the Subscriber (together with the independent placees of the Warrants Shares after the relevant placing) and the existing other public Shareholders who hold 77,696,000 Shares, 659,815,200 Shares and 155,980,000 Shares respectively, as well as the proposed placing of the 650,000,000 Rights Shares by China Everbright to independent placees.

Shareholders and public investors should note that the shareholding changes shown in the above two tables are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue. The Underwriter will make sub-underwriting arrangement with certain sub-underwriters which are Independent Third Parties such that none of the Underwriter and the sub-underwriters will be interested in 30% or more of the issued share capital of the Company as enlarged by the Rights Shares.

The Underwriter intends to maintain the minimum 25% public float upon completion of the Rights Issue. Under the arrangements under notes (3), (4) and (5) to the shareholding table of the Company above, the Directors are of the view that the minimum 25% of the public float upon completion of the Rights Issue can be maintained.

## LETTER FROM THE BOARD

### WARNING OF THE RISKS OF DEALING

The Shares have been dealt in on an ex-rights basis from Wednesday, 3 October 2007. Dealings in the Rights Shares in the nil-paid form will take place from Monday, 15 October 2007 to Tuesday, 23 October 2007 (both dates inclusive). If the conditions of the Rights Issue (see the section headed “Conditions of the Rights Issue” above) are not fulfilled on or before 4:00 p.m. on Wednesday, 31 October 2007 (or such other time or dates as may be agreed between the Underwriter and the Company), or the Underwriter terminate the Underwriting Agreement, the Rights Issue will not proceed.

**Any Shareholder or other person dealings in the Shares during the period from the date of this circular and up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be on Wednesday, 31 October 2007), and any dealings in the Rights Shares in the nil-paid form from Monday, 15 October 2007 to Tuesday, 23 October 2007 (both dates inclusive) should bear the risk that the Rights Issue may not become unconditional or may not proceed.**

If in any doubt, investors should consider obtaining professional advice.

### REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Company is an investment company under Chapter 21 of the Listing Rules. Its principal investment objective is to achieve medium-term capital appreciation by investing in listed and unlisted companies mainly in Hong Kong and the PRC.

Traditionally, the national defense and related industries in the PRC are mainly operated by state-owned enterprises, and have resulted in lack of efficiency and effectiveness in the operations and management of these enterprises. In order to enhance the operating efficiency and financial performance of these state-owned enterprises in the national defense and related industries, the CSTIND, NDRC and SOASAC jointly issued a policy direction of Circular No. 546 (“Circular 546”) in June 2007 to set out the basic framework concerning the reform and restructuring of these state-owned enterprises.

In general, enterprises involved in the core strategic national safety projects should be owned by the PRC government (the “Restricted Category”). Circular 546 has indicated that domestic investors are encouraged to participate in the share reform and restructuring of those state-owned enterprises engaged in the design and assembling of certain weapon as well as the production of certain national defense related parts (the “Limited Category”), provided that the PRC government’s equity interest in these enterprises are over 51%. Except for the Restricted Category and the the Limited Category, Circular 546 generally encourages qualified foreign investors to participate in the share restructuring of other national defense related enterprises (particularly, those engaged in the commercialisation and development of technology used in military for commercial and civil application) as well as the future financing of these enterprises in the domestic and foreign capital market for purpose of enhancing their capital structure.

## LETTER FROM THE BOARD

According to the China Statistical Yearbook 2006, the PRC's annual expenditure in national defense has increased substantially over the past 10 years from RMB63.7 billion (equivalent to approximately HK\$65.6 billion) in 1995 to RMB247.5 billion (equivalent to approximately HK\$254.9 billion) in 2005, representing a compounded annual growth rate of approximately 14.5%. Similar to the many state-owned enterprises of the PRC listed on the Stock Exchange, the share restructuring of the state-owned enterprises engaged in national defense and related industries will result in the introduction of foreign investors to become shareholders to strengthen their shareholding and capital structures, whilst at the same time, the relevant PRC government will remain as the major shareholder with control over these enterprises. The Directors have confirmed that the Company intends to use the proceeds to invest, as a minority shareholder, and participate, as a financial investor, in the state-owned enterprises engaged in national defense and related industries (particularly, those engaged in the commercialisation and development of technologies used in military for commercial and civil applications) at the early stage of their share restructuring. Having considered the significant investment by the PRC government in the national defense and related industries in the past years, the opening of the PRC's national defense and related industries in the PRC as promulgated by Circular 546, the Directors consider that the Company will be able to enjoy its return and realize its investment in these enterprises by way of, including, but not limited to, dividend distribution and capital appreciation through initial public offering and trade-sale. Furthermore, in view of the recent significant growth in the investment and financial industries in the PRC, the Directors are also positive about the prospect of the financial industry in the PRC. As such, the Company intends to use net proceeds of approximately HK\$117 million (assuming no exercise of the Subscription Rights attaching to the Outstanding Options on or before the Record Date) and approximately HK\$150 million (assuming the subscription rights attaching to the Outstanding Options are exercised in full on or before the Record Date) principally for such purposes and the Directors consider that the Rights Issue and the proposed use of the proceeds are in the interest of the Company and the Shareholders as a whole.

The Directors consider that the relaxation in investment in the PRC's national defense and related industries to foreign investors as promulgated by Circular 546 will result in the opening of an investment area which has been previously dominated by the PRC government for the Company and other foreign investors. However, the Directors also consider that the Company's future investment in the PRC's national defense and related business will be subject to a number of risks, including the potential future changes in the relevant government policy and regulations in relation to foreign investment in the national defense and related business, the future development of the national defense and related industries, the overall industries environment (such as competition with other foreign enterprises engaged in similar business) as well as the future technologies development in the PRC.

As at the Latest Practicable Date, the Directors had neither (i) specified the investment scope of the Company in relation to its future investment in the PRC's national defenses related industries nor (ii) identified any specific investment target yet.

## LETTER FROM THE BOARD

### FUND RAISING ACTIVITIES OF THE GROUP FOR THE PAST TWELVE MONTHS

The following table summaries the fund raising activities of the Group for the 12 months immediately preceding the date of the Announcement:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
23 August 2006	Rights Issue	Approximately HK\$3.6 million	Investment	HK\$3.6 million has been retained for future investment purpose (Note 1)

*Note 1:* As the Company has not identified any appropriate investment since the above fund-raising activity, the net proceeds from the aforesaid rights issue has been placed in an interest-bearing account for future investment purpose.

### FINANCIAL AND BUSINESS PROSPECTS

#### Financial review

For the year ended 31 December 2006, the Company recorded a turnover of approximately HK\$0.43 million and a loss before taxation of approximately HK\$1.19 million.

#### Business review

During the financial year ended 31 December 2006, the Company held investments in two unlisted companies namely Jinan LuGu (HK) Technology Development Limited (“Jinan LuGu”) and SNG Hong Kong Limited (“SNG”) and one unlisted convertible loan note issued by King Tiger Technology Company Limited (“King Tiger”) in its investment portfolio. The Company’s investment in Jian Lugu, SNG and King Tiger represented its entire investment portfolio during the financial year ended 31 December 2006.

Jinan LuGu is incorporated in Hong Kong and principally engaged in investment holding. As at 31 December 2006, it indirectly held 59.5% interest in a company incorporated in the PRC, of which the principal activity is manufacturing and trading of 陶瓷微電路基板 (Ceramic Microcircuit Substrates), 微電路模塊 (Microcircuit Modules), 陶瓷電子元(組)件 (Ceramic Electronic Apparatus Parts (Discreteness)). The Company holds 250 ordinary shares in Jinan LuGu, representing 25% interest in the issued share capital of Jinan LuGu. The Company did not receive any dividend from this investment during the year.

SNG is incorporated in Hong Kong and principally engaged in investment holding. As at 31 December 2006, SNG indirectly held 38.5% interest in a company incorporated in the PRC, of which the principal activity is manufacturing and trading of 發光二極管芯片 (LED Chips). The Company holds 3,750 ordinary shares in SNG, representing 30% interest in the issued share capital of SNG. The Company did not receive any dividend from SNG during the year.

## LETTER FROM THE BOARD

King Tiger is incorporated in Taiwan ROC and principally engaged in investment holding. It indirectly holds 49% interest in 安徽精通科技有限公司 (AnHui JingTong Science & Technology Co. Ltd.) ("AnHui JingTong"). AnHui JingTong is registered in the PRC as foreign investment enterprises by equity joint venture and principally engaged in the manufacturing of solder ball by the Ball Grid Array technology. The Company holds a convertible loan note issued by King Tiger with face value of USD1,144,000 matured on 15 January 2006 with an interest rate of 6.5% per annum. Upon maturity of the convertible loan note, the Company has the right to convert the outstanding principal amount of the loan note together with the accrued interest, if any, into shares, directly or indirectly, in AnHui JingTong. King Tiger had defaulted on the payment of interest since 31 December 2003. Further, the Company was informed by King Tiger that there were certain disputes between the shareholders of AnHui JingTong which hindered the conversion of the shareholding to King Tiger or to the Company directly. In light of the above, for the sake of prudence, impairment loss for the full investment cost had been recognised during the year ended 31 December 2005.

As at the Latest Practicable Date, the Company continued to hold the abovementioned investments in its investment portfolio. The Board is of the view that the business operations and the performance of such investments excluding the investment in the unlisted convertible loan note issued by King Tiger will grow with the economy in the PRC in the foreseeable future.

### **Prospects**

Looking forward, with the optimistic and continually improving economic environment in Hong Kong and the PRC, the Company will be able to explore more investment opportunities across various sectors. The Company has been actively searching for suitable investments to diversify its portfolio and to bring additional returns to the Shareholders. Although no specific investment target had been identified as at the Latest Practicable Date, the Company will continue to seek for such investment opportunity. With the strengthened financial position after completion of the Rights Issue, the Company will have more flexibility in the implementation of its investment strategy.

### **PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF THE COMPANY**

The Board also proposed to increase its authorised share capital from HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each as at the Latest Practicable Date, to HK\$50,000,000, divided into 5,000,000,000 Shares of HK\$0.01 each, so as to provide flexibility to the Company to facilitate the Rights Issue and the Warrants Subscription.

The proposed increase in the authorised share capital of the Company is subject to the approval of the Shareholders by ordinary resolutions at the EGM by way of a poll.

## LETTER FROM THE BOARD

### PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Listing Rules have been amended by the Stock Exchange by replacing the Code of Best Practice in Appendix 14 by a new Code on Corporate Governance Practices (the "CG Code") and adding a new Appendix 23 on the requirements for a Corporate Governance Report to be included in annual reports of listed issuers.

The Directors therefore propose to put forward to the Shareholders for approval of a special resolution to amend the Articles of Association at the EGM. The amendments are to bring the current Articles of Association in line with, including but not limited to, (i) paragraph A.4.2 of the CG Code which requires that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and all Directors appointed to fill a casual vacancy should be subject to election by the Shareholders at the first general meeting after their appointment; and (ii) paragraph E.2.1 of the CG Code which provides, among other things, that if the aggregate proxies held by the chairman of a particular general meeting and/or the Directors account for 5%, or more of the total voting rights at the meeting, and if on a show of hands in respect of any resolution, the meeting votes in the opposite manner to that instructed in those proxies, the chairman of the general meeting and/or any Director holding proxies as aforesaid shall demand a poll, unless it is apparent from the total proxies held by those persons that a vote taken on a poll will not reverse the vote taken on a show of hands.

Further amendments have been made to the Listing Rules with effect from 1 March 2006 requiring that, among other matters, the Articles of Association shall provide that directors may be removed at any time by ordinary resolution of the Shareholders.

The proposed amendments to Articles of Association are stated in the proposed special resolution no. 4 in the notice convening the EGM as set out on pages 91 to 92 of this circular.

### PROPOSED REFRESHMENT OF SCHEME MANDATE LIMIT

The Share Option Scheme was adopted by the Company on 18 July 2002. The Scheme Mandate Limit was set at 10% of the Shares in issue as at the date of adoption of the Share Option Scheme in compliance with the Listing Rules. Subject to prior Shareholders' approval, the Company may, at any time thereafter, refresh the Scheme Mandate Limit to the extent not exceeding 10% of the Shares in issue as at the date of the aforesaid Shareholders' approval.

On the Latest Practicable Date, Outstanding Options carrying rights to subscribe for a total of 23,904,000 Shares were granted to certain Eligible Participants in accordance with the terms of the Share Option Scheme since its adoption. Of these, a total of Options to subscribe for a total 23,904,000 Shares, representing approximately 7.97% of the existing issued share capital of the Company, remain outstanding as at the Latest Practicable Date under the Share Option Scheme. There will be 23,904,000 Shares allotted and issued if such Outstanding Options are exercised in full.

## LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has issued 300,012,000 Shares. Pursuant to the terms of the Share Option Scheme and in compliance with the Listing Rules, the maximum number of Shares, which may be issued upon the exercise of all the Outstanding Options to be granted under the Share Option Scheme under the Scheme Mandate Limit as refreshed should be 30,001,200 Shares (assuming no further issue of Shares).

It is proposed that subject to the Listing Committee granting the listing of, and permission to deal in the Shares to be issued pursuant to the exercise of the Outstanding Options granted under the refreshed Scheme Mandate Limit and the passing of the relevant resolution at the EGM by the Shareholders, the Scheme Mandate Limit be refreshed so that the total number of securities, which may be issued upon exercise of all Options to be granted under the Share Option Scheme under the refreshed Scheme Mandate Limit as refreshed, shall not exceed 10% of the Shares in issue as at the date of approval of the proposed refreshment of Scheme Mandate Limit by the Shareholders at the EGM. Outstanding Options previously granted under the Share Option Scheme (including without limitation those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Based on 300,012,000 Shares in issue as at the Latest Practicable Date and assuming no further issue or repurchase of Shares prior to the EGM, the refreshed Scheme Mandate Limit will be 30,001,200 Shares.

Pursuant to the Listing Rules, the Shares which may be issued upon exercise of all Outstanding Options granted and yet to be exercised under the Share Option Scheme at any time should not exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded.

### **Conditions of the Refreshment of Scheme Mandate Limit**

The proposed Refreshment of Scheme Mandate Limit is conditional upon:

1. the passing of the necessary ordinary resolution by the Shareholders at the EGM to approve the proposed Refreshment of Scheme Mandate Limit by way of a poll; and
2. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options to be granted under the refreshed Scheme Mandate Limit.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of Options to be granted under the refreshed Scheme Mandate Limit.

## LETTER FROM THE BOARD

### **Reasons for the Refreshment of Scheme Mandate Limit**

The proposed Refreshment of Scheme Mandate Limit will enable the Company to grant further Options to Eligible Participants so as to provide opportunities and incentives to them to work towards enhancing the values of the Company and Shares for the benefit of the Company and Shareholders as a whole.

### **LISTING RULES IMPLICATIONS**

Since the Rights Issue will increase the issued share capital and the market capitalisation of the Company by more than 50%, pursuant to Rule 7.19(6)(a) of the Listing Rules the relevant resolutions regarding the Rights Issue must be made conditional upon approval by the Shareholders by way of a poll at the EGM and any controlling Shareholders and their associates shall abstain from voting in favour of the relevant resolutions. Since there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates (as defined under the Listing Rules) as at the date of the Announcement will abstain from voting in favour of the relevant resolutions relating to the Rights Issue. Accordingly, each of Mr. Xiang, Mr. Chan Cheong Yee, Mr. Kwok Chi Hung and Mr. Ng Tin Sang, being the executive Directors, Mr. Lin, being the former Director, and Mr. Wang Qing Yu (Chairman) and Mr. Ng Kwong Chue Paul, being the non-executive Directors, and their respective associates will abstain from voting in favour of the resolution relating to the Rights Issue if any of them has remained as a Director and/or chief executive of the Company and holds Shares as at the date of the EGM. As at the Latest Practicable Date, Mr. Xiang and Mr. Lin and their respective associates have control or are entitled to control 87,600,000 Shares and 77,696,000 Share respectively (representing approximately 29.2% and 25.9% of the issued share capital of the Company, respectively). They have confirmed that they and their respective associates agree to the Rights Issue and therefore, will abstain from voting at the EGM for resolution relating the Rights Issue. No other Directors are interested in any Shares as at the Latest Practicable Date.

### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee comprising all the independent non-executive Directors will be formed to make recommendations to the Independent Shareholders in relation to the Rights Issue and Vinco has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue.

### **EGM**

A notice convening the EGM of the Company to be held at Suites 2305–2307, 23rd Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong or any adjournment thereof is set out on pages 89 to 93 of this circular at which resolutions will be proposed to consider and, if thought fit, to approve the Rights Issue by Independent Shareholders, to approve the increase in authorised share capital, the proposed Refreshment of the Scheme Mandate Limit of the Share Option Scheme and the amendments to the Articles of Association by the Shareholders.



## LETTER FROM THE BOARD

Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy, to the Company's branch share registrar in Hong Kong, Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong during the period up to 30 September 2007 and at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Hong Kong effective on 1 October 2007 as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

Article 77 of the articles of association of the Company sets out the following procedure by which Shareholders may demand a poll.

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (i) by the Chairman of such meeting; or
- (ii) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

## LETTER FROM THE BOARD

### RECOMMENDATION

In view of the various reasons and benefits of the proposed (i) Rights Issue; (ii) increase in authorised share capital of the Company; (iii) the amendments to the Articles of Association and (iv) the Refreshment of Scheme Mandate Limit as discussed above as well as the purpose of the Company's strict compliance with the Listing Rules, the Directors recommend that the Independent Shareholders to vote in favour of the resolution in respect of the Rights Issue and the Shareholders to vote in favour of the resolutions in respect of (i) the increase in authorised share capital of the Company; (ii) the proposed Refreshment of the Scheme Mandate Limit and (iii) the amendments to the Articles of Association.

### FURTHER INFORMATION

Your attention is also drawn to the letter of advice from Vinco, which contains its advice and recommendation in connection with the Rights Issue, the letter from the Independent Board Committee and the additional information set out in the appendices to this circular.

Yours faithfully,  
By order of the Board  
**Xiang Xin**  
*Executive Director*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



**SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1217)**

17 September 2007

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE OF NOT LESS THAN 3,000,120,000 RIGHTS SHARES  
AND NOT MORE THAN 3,838,992,000 RIGHTS SHARES  
AT HK\$0.04 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE  
(IN THE PROPORTION OF 10 RIGHTS SHARES FOR  
EVERY SHARE HELD ON THE RECORD DATE)**

We refer to the circular of the Company dated 17 September 2007 (the "Circular ") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed to advise the Independent Shareholders in connection with the terms of the Rights Issue. Vinco has been appointed as the independent financial adviser to advise you and us in this respect.

We have been considered the terms of the Rights Issue and the advice of Vinco in relation thereto as set out on pages 34 to 47 of the Circular, we are of the opinion that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned; and that the Rights Issue is in the interests of the Company and its Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution in relation to the Rights Issue to be proposed at the EGM.

Yours faithfully,  
Independent Board Committee

**Mr. David Wang Xin**  
*Independent*  
*Non-executive Director*

**Mr. Zang Hong Liang**  
*Independent*  
*Non-executive Director*

**Mr. Lee Wing Hang**  
*Independent*  
*Non-executive Director*

## LETTER FROM VINCO

*The following is the text of a letter of advice from Vinco to the Independent Board Committee and the Independent Shareholders in connection with the proposed rights issue of not less than 3,000,120,000 Rights Shares and not more than 3,838,992,000 Rights Shares at HK\$0.04 per Rights Share payable in full on acceptance (in the proportion of 10 Rights Shares for every Share held on the Record Date) which has been prepared for the purpose of incorporation in this circular:*

**VINCO**  城高  
**Grand Vinco Capital Limited**  
Unit 4909-4910, 49/F., The Center  
99 Queen's Road Central, Hong Kong

17 September 2007

*To the Independent Board Committee and the Independent Shareholders of  
Sino Technology Investments Company Limited*

Dear Sirs,

**PROPOSED RIGHTS ISSUE OF  
NOT LESS THAN 3,000,120,000 RIGHTS SHARES  
AND NOT MORE THAN 3,838,992,000 RIGHTS SHARES  
AT HK\$0.04 PER RIGHTS SHARE PAYABLE IN FULL  
ON ACCEPTANCE (IN THE PROPORTION OF  
10 RIGHTS SHARES FOR EVERY SHARE HELD  
ON THE RECORD DATE)**

### INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed Rights Issue of not less than 3,000,120,000 Rights Shares and not more than 3,838,992,000 Rights Shares in the proportion of ten Rights Share for every existing Share held at HK\$0.04 per Rights Share, details of which are set out in the "Letter from the Board" in the circular (the "Circular") issued by the Company to the Shareholders dated 17 September 2007 of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

As at the date of Announcement, the Company proposed to raise not less than approximately HK\$120 million and not more than approximately HK\$153 million, before expenses, by issuing not less than 3,000,120,000 Rights Shares and not more than 3,838,992,000 Rights Shares to the Qualifying Shareholders by way of Rights Issue at a price of HK\$0.04 per Rights Share on the basis of ten Rights Shares for every existing Share held on the Record Date.

## LETTER FROM VINCO

In accordance with Rule 7.19(6) of the Listing Rules, the Rights Issue is conditional upon approvals by the Shareholders at the EGM by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue.

The Independent Board Committee, comprising Mr. David Wang Xin, Mr. Zang Hong Liang and Mr. Lee Wing Hang, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders on the terms of the Rights Issue. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the terms of the Rights Issue are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and whether the Independent Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

## LETTER FROM VINCO

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

In formulating our opinion, we have not considered the taxation implications on Independent Shareholders in relation to the subscription for, holding or disposal of the Rights Shares or otherwise, since these are particular to their individual circumstances. It is emphasized that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Rights Shares or otherwise. In particular, Independent Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the proposed Rights Issue and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, we have considered the principal factors and reasons set out below:

#### **Background of and reasons for the Rights Issue**

The Company is an investment holding company listed pursuant to Chapter 21 of the Listing Rules. Its principal investment objective is to achieve medium-term capital appreciation by investing in listed and unlisted companies mainly in Hong Kong and the PRC. According to the annual report 2006 of the Company, the Group recorded a loss before taxation of approximately HK\$1.19 million for the year ended 31 December 2006 and accrued a net asset value of approximately HK\$29 million as at 31 December 2006.

With reference to the Announcement, the Company proposed to raise not less than approximately HK\$120 million and not more than approximately HK\$153 million by way of a Rights Issue of not less than 3,000,120,000 Rights Shares and not more than 3,838,992,000 Rights Shares at a price of HK\$0.04 each on a basis of ten Rights Shares for every existing Share held by the Qualifying Shareholders on the Record Date. The executive Directors and the non-executive Directors consider that it is in the interest of the Company and the Shareholders to enlarge the capital base and to enhance the financial position of the Company for future development of the Group through the implementation of the Rights Issue. The net proceeds of the Rights Issue are not less than approximately HK\$117 million and not more than approximately HK\$150 million will be used by the Company mainly for investment purpose.

## LETTER FROM VINCO

Given the present needs to strengthen the financial position of the Group, we noted that the Directors considered the Rights Issue as an appropriate fund raising method as it would enable the Company to strengthen its capital base and improve its financial position. Having considered that the Rights Issue will be effected on a pro-rata basis to all Shareholders which will offer all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company, the Rights Issue enable the Qualifying Shareholders to maintain their proportionate interest in the Company if they wish to continue to participate in the future development of the Group.

As advised by the Directors, they have also considered alternative means of financing other than rights issue, including arrangement of new bank loans, private placements, and open offer. In view of the operating performance for the year ended 2006, the Directors believe that taking on additional bank borrowings would be impracticable. Private placements of new shares, open offer, and rights issue are common means of equity financing. The Directors consider that a private placement of Shares by its nature excludes existing Shareholders, and at the same time, results in dilution of existing Shareholders' interests. Both open offer and rights issue render all the Shareholders equal opportunities to participate in the enlargement of the capital base of the Company and allow them to maintain their proportionate interests in the Company. Comparing with an open offer, a rights issue provides additional benefit to the Shareholders in that it allows the Shareholders who do not wish to participate in the fund raising of the Company to dispose of their entitlements in the market, subject to market conditions. We noted that the basis of choosing the Rights Issue as the fund raising method of the Company is fair and reasonable to the Company and the Independent Shareholders as a whole.

Based on the above, we are of the view that the reasons of Rights Issue are fair and reasonable to, and are in the interests of the Company and the Independent Shareholders as a whole.

### **Proposed use of proceeds**

We noted from the press release dated on 4 March 2007, in relation to the National People's Congress legislature's annual session (the "Press Release"), of which the national defense budget of the PRC had already increased from RMB297.93 billion in 2006 to RMB350.92 billion in 2007, representing a rise of 17.8% in the year of 2007. We are of the view that this demand-driven growth in the national defense industry will continue which will provide plenty of investment opportunities in the related industries in the PRC.

As stated in the Letter from the Board, except for the Restricted Category and Limited Category, Circular 546 encourages qualified foreign investors to participate in the share restructuring and reform of other national defense related enterprises as well as the future financing of these enterprises in the local and foreign capital market for the purpose of enhancing their capital structure and corporate governance. As advised by the Directors, we understand that the Company will look into the

## LETTER FROM VINCO

commercialization and development of technologies used in military for commercial and civil applications (the “Military-Commercial Field”). According to the 中國上市公司資訊網 website ([www.cnlist.com](http://www.cnlist.com)), we found and reviewed 33 listed companies which were formerly state-owned enterprises classified under the Military-Commercial Field in the Shanghai and Shenzhen Stock Exchanges. Business coverage of abovementioned listed companies consists of information technology, automobile, aviation, general electronics, telecommunications, machinery and steel refinery. We noted that the stock price performance of those companies was in an upward trend in 2007 (up to the Latest Practicable Date). Coupling with the government support as implied by the Circular 546, we are of the view that the Military-Commercial Field may from time to time provide good business opportunities to the Company.

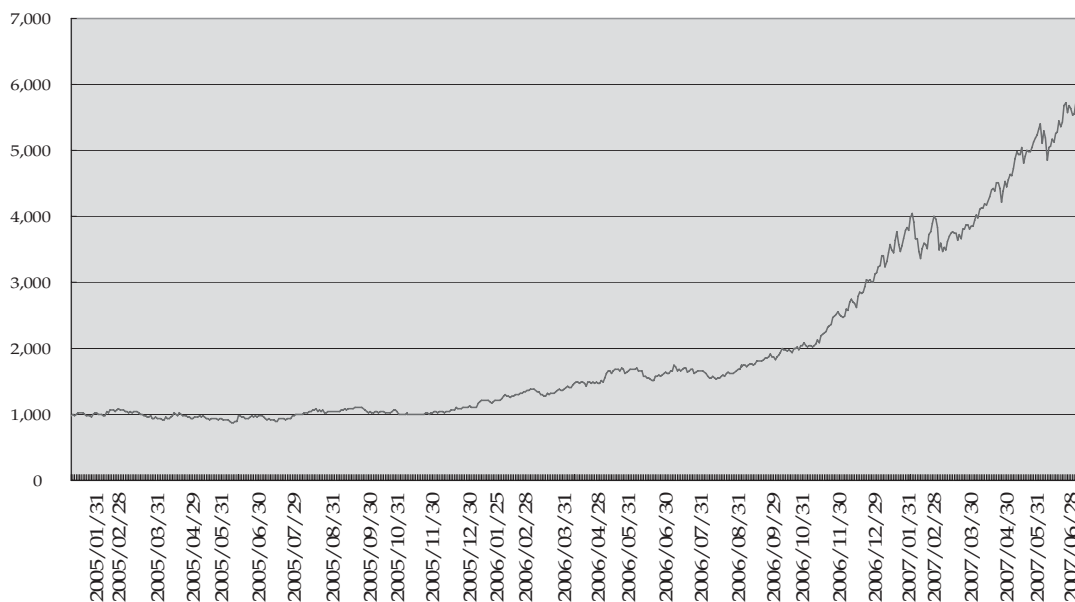
The policy under Circular 546 will provide a gateway to the Company to participate in the reform and restructuring of the state-owned enterprises in the national defense and related industry in the PRC. As confirmed by the Directors, the Company intends to invest, as a minority shareholder, and participate in Military-Commercial Field, as a financial investor, at the early stage of the reform and restructuring of the unlisted state-owned enterprises. In view of the positive trend on the share price of the stocks under the Military-Commercial Field in the Shanghai and Shenzhen Stock Exchanges in 2007 (up to the Latest Practicable Date), we concur with the view of the Directors that the Company could maintain liquidity in its potential investment through (i) realization of the shares in public market after the target company is listed; and (ii) trade-sale of the investment to other investors, if thought fit, before the target company is listed.

As stated in the Letter from the Board, the Directors noted that the investment opportunities are subject to the risks of the reforms and economic policies adopted by the PRC government may be reversed, which may have an adverse effect on enterprises with business in the PRC, the future development of national defense related businesses and the overall industries environment. However, pursuant to the Press Release, we noted that the PRC government has demonstrated a clear message to maintain the country’s security and unity and to guarantee the realization of a moderately well-off society. As such, we are of the view that radical changes in the current policy may not happen in the near future and the future development of the national defense industry should remain promising. After the discussion with the management of the Company, we understand that the Company will, on a case by case basis, perform assessment on potential investment opportunities when possible projects are identified in accordance with the investment objectives, policies and restrictions of the Company. Based on aforementioned, including (i) a strong gesture of the PRC government in national security issue and (ii) a stringent assessment procedures that will be adopted by the Company in relation to the selection of investment opportunities, we are of the view that the investment in the state-owned enterprises engaged in national defense and related industry is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.



## LETTER FROM VINCO

Pursuant to the Greater China Region Financial Stability Report (“中國區域金融穩定報告”) issued in 2006 and 2007, the PRC economy sustained fast and steady development with continued strong growth momentum in the financial sector. As the reform and opening-up of the financial industry progressed, the financial industry continued its development in fast pace. Based on the CSRC 300 Financial Sector Index (“中證監300金融指數”) as showed below, there has been a steady and upward trend since 2005.



Under such favorable macro economic environment, we are of the view that the investment in the financial industry is in the interests of the Company and the Independent Shareholders as a whole.

The Company intends to use the net proceeds of not less than approximately HK\$117 million (assuming no exercise of the subscription rights attaching to the Outstanding Options and the Warrants on or before the Record Date) and not more than approximately HK\$150 million (assuming the subscription rights attaching to the Outstanding Options and the Warrants are exercised in full on or before the Record Date) for the investment in the state-owned enterprises engaged in national defense and related industry and financial industry purposes. However, as confirmed by the Directors, the Company has not identified any specific investment targets as at the Latest Practicable Date.

Based on the foregoing, including (i) the increase in PRC’s national defense budget, (ii) new policy issued by PRC which supports and encourages the foreign investors to invest in the state-owned enterprises engaged in national defense and related industry, and (iii) the favourable macro economic environment, we are of the view that it is in the interests of the Company and the Independent Shareholders to raise additional funds to enlarge the Company’s capital bases as well as to provide the Company with sufficient cash or highly liquid assets for such suitable investment opportunities when they become available. Therefore we consider that the proposed use of proceeds from the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole.

## LETTER FROM VINCO

### Principal terms for the Rights Issue

#### *Issue statistics*

Basis of Rights Issue:	Ten Rights Shares for every existing Share held on the Record Date
Number of Shares in issue:	300,012,000 Shares as at the Latest Practicable Date
Number of Rights Shares:	Not less than 3,000,120,000 Rights Shares (assuming no exercise of the subscription rights attaching to the Outstanding Options and the Warrants on or before the Record Date) and not more than 3,838,992,000 (assuming full exercise of the subscription rights attaching to the Outstanding Options and the Warrants on or before the Record Date)
Subscription Price:	HK\$0.04 per Rights Share payable in full upon acceptance
Underwriter:	Eternal Pearl Securities Ltd.

### Subscription price

The Subscription Price is HK\$0.04 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its relevant provisional allotments of the Rights Issue or applies for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Right Shares. The Subscription Price represents:

- (i) a discount of approximately 87.30% to the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 98.29% to the closing price of HK\$2.34 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (iii) a discount of approximately 33.33% to the theoretical ex-rights price of HK\$0.06 per Share based on the closing price per Share on the Last Trading Day;
- (iv) a discount of approximately 89.01% to the average closing price of HK\$0.364 per Share for the last five consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 89.85% to the average closing price of HK\$0.394 per Share for the last ten consecutive trading days up to and including the Last Trading Day;

## LETTER FROM VINCO

- (vi) a discount of approximately 58.51% of the net asset value per Share of HK\$0.0964 as at 31 August 2007 based on the unaudited consolidated net asset value of the Group published on the Stock Exchange's website.

As stated in the Letter from the Board, the Subscription Price has been determined based on arm's length negotiation between the Company and the Underwriter with reference to the then market environment, prevailing market price of the Shares and recent financial conditions of the Group.

To assess as to the fairness and reasonableness of the Rights Issue, we have reviewed and included below all the companies (the "Comparables") listed on the Stock Exchange which have announced rights issue during the last six months preceding the date of the Latest Practicable Date as follows:

Company name	Stock code	Date of announcement	Underwriting commission	Basis of entitlement	Discount/ (premium) of the subscription price to the closing price of last trading day prior to the date of announcement	Discount/ (premium) of the subscription price to the theoretical ex-right price of last trading day prior to the date of announcement	Discount/ (premium) of the subscription price to the latest available net asset value per share
Bestway International Holdings Limited	718	5-Feb-07	1.50%	1 for 2	39.60%	30.40%	37.79%
China Treasure (Greater China) Investments Limited	810	12-Feb-07	2.50%	9 for 1	97.50%	79.59%	97.34%
Unity Investments Holdings Limited	913	12-Mar-07	2.50%	10 for 1	76.19%	22.54%	94.48%
See Corporation Limited	491	13-Mar-07	2.50%	4 for 1	73.00%	35.10%	56.30%
Pacific Andes International Holdings Limited	1174	23-Mar-07	N/A	1 for 2	34.30%	25.80%	N/A
Freeman Corporation Limited	279	23-Mar-07	2.50%	1 for 2	45.70%	35.83%	N/A
Fortuna International Holdings	530	9-May-07	2.00%	2 for 1	72.31%	46.53%	72.72%
TCL Multimedia Technology Holdings Limited	1070	15-May-07	N/A	1 for 2	37.50%	28.60%	(31.10%)
Kingway Brewery Holdings Limited	124	16-May-07	3.70%	2 for 9	25.50%	21.90%	(74.10%)
Cheong Ming Investments Limited	1196	25-May-07	2.50%	1 for 4	44.44%	34.80%	N/A
Sino Katalytics Investment Limited	2324	12-June-07	2.50%	1 for 2	28.00%	20.60%	51.35%
Asia Orient Holdings Limited	214	13-June-07	2.00%	1 for 2	42.20%	32.60%	73.40%
China Financial Industry Investment Fund Limited	1227	21-June-07	2.25%	12 for 1	91.94%	46.70%	(25.00%)
Suncorp Technologies Limited	1063	26-June-07	N/A	3 for 10	26.92%	22.08%	N/A
Matsunichi Communication Holdings Limited	283	28-June-07	N/A	1 for 2	10.00%	6.30%	N/A
Shangri-la Asia Limited	69	3-July-07	1.00%	1 for 9	4.80%	4.30%	N/A
The Sun's Group Limited	988	8-August-07	1.50%	1 for 2	69.70%	60.50%	(21.30%)
New Heritage Holdings Limited	95	17-August-07	1.25%	3 for 8	14.75%	11.86%	14.19%
Heritage International Holdings Limited	412	27-August-07	2.25%	1 for 2	13.79%	9.09%	N/A
Max:			3.70%		97.50%	79.59%	97.34%
Min:			1.00%		4.80%	4.30%	(74.10%)
Mean			2.16%		44.64%	30.27%	28.84%
<b>The Company</b>	<b>1217</b>	<b>16-August-07</b>	<b>2.11%</b>	<b>10 for 1</b>	<b>87.30%</b>	<b>33.33%</b>	<b>58.51%</b>

Source: Stock Exchange

## LETTER FROM VINCO

Based on the aforementioned table,

1. the subscription prices to the closing price on the last trading day prior to the dates of announcement of the Comparables ranged from a discount of approximately 4.80% to 97.50%, with the mean at discount of approximately 44.64%. The discount of the Subscription Price of the Rights Issue to the closing price of the Shares on the Last Trading Day is approximately 87.30%, which is deeper than the mean but falls within the range of the Comparables;
2. the subscription prices to the theoretical ex-rights prices per share based on the last trading day prior to the dates of announcement in relation to the Comparables ranged from a discount of 4.30% to a discount of 79.59%, with the mean at discount of approximately 30.27%. The discount of the subscription price of the Rights Issue to the theoretical ex-rights price per Share of approximately 33.33%, based on the closing price of the Shares on the Last Trading Day, is deeper than the mean but falls within the range of the Comparables; and
3. the subscription prices to the net asset value per share of the Comparables ranged from a premium of approximately 74.10% to a discount of approximately 97.34%, with the mean at discount of 28.84%. The discount of the subscription price to the Rights Issue to the unaudited net asset value per Share as at 31 August 2007 of approximately 58.51% is deeper than the mean but falls within the range of the Comparables.

Based on the aforesaid, although the Subscription Price of the Rights Issue represents a relatively deeper discount to the relevant mean of the closing prices on the Last Trading Day, the theoretical ex-rights prices per share and the latest available net asset value per share of the Comparables, they are still within the range of the Comparables. We also concur with the view of the Directors that (i) the current and historical market prices of the Shares and recent market conditions; (ii) the low liquidity of the Shares in the past 6 months before the Announcement; and (iii) the discounts rates of the subscription price of the recent rights issues exercises by other Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its shareholding in the Company on the Record Date. As such, we are of the view that the Subscription Price of the Rights Issue is in line with market practice and is fair and reasonable, and thus is in the interests of the Company and the Independent Shareholders as a whole.

### **Underwriting Agreement**

The Rights Issue is subject to the Underwriting Agreement, the Underwriter has agreed to underwrite not less than 3,000,120,000 Rights Shares and not more than 3,239,160,000 Rights Shares.

## LETTER FROM VINCO

In addition, based on the Underwriting Agreement, the Company will pay the Underwriter an overall underwriting commission of 2.11% of the Subscription Price. The Comparables showed a range of 1.00% to 3.70% of underwriting commission with a mean of 2.16%. On this basis, we noted the underwriting commission charged by the Underwriter to the Company is lower than the mean of the Comparables. Thus we are of the view that the underwriting commission charged by the Underwriter is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

### **Termination of the Underwriting Agreement**

It should be noted that the Rights Issue would not proceed if the Underwriter exercise their termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are included in the Letter from the Broad. After reviewing the circulars of the Comparables, we consider such provisions are in normal commercial terms and in line with the market practice.

### **Application for excess Rights Shares**

As stated in the Letter from the Board under the section headed "Rights Issue", Qualifying Shareholders will be given the right to apply for any unsold entitlements of the Non-qualifying Shareholders; or any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders; or any unsold Rights Shares arising from the aggregation of fractional entitlements.

Application can be made by completing the EAF and lodging the same with appropriate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis and will give preference to topping up odd lots to whole board lots.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the application for excess Rights Shares will not be extended to beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

After reviewing the circulars of the Comparables, we noted that the above practices are in line with market practice. Based on the foregoing, we are of the view that such arrangement is fair and reasonable to the Company and the Independent Shareholders as a whole.

## LETTER FROM VINCO

### Dilution effect of the Rights Issue on shareholding interests

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

For those Qualifying Shareholders who do not exercise their rights to subscribe for the Rights Shares in full, depending on the extent that they accept their entitlements, their shareholding interests will be diluted up to a maximum of approximately 90.90%. However, it should be noted that such Shareholders will have the opportunity to realize their nil-paid rights to subscribe for the Rights Shares (the “Nil-Paid Rights”) on the market during the dealing of Nil-Paid Rights on the Stock Exchange, subject to the then prevailing market conditions.

Meanwhile, Qualifying Shareholders who wish to increase their shareholdings in the Company through the Rights Issue may, subject to availability, acquire additional Nil-Paid Rights in the market. The Qualifying Shareholders may also apply for excess Rights Shares.

We are of the view that the arrangement for the Rights Issue is in line with recent market practice for rights issue and is able to cater for different objective for the Qualifying Shareholders.

The shareholding structure before and after the Rights Issue is illustrated as below:

	As at the Latest Practicable Date		Immediately after the completion of the Rights Issue assuming that all Qualifying Shareholders have taken up their entitlement in full		Immediately after the completion of the Rights Issue assuming that none of the Qualifying Shareholders have taken up their entitlements except Mr. Xiang	
	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %
Directors:						
Mr. Xiang (Note 1)	87,600,000	29.20	963,600,000	29.20	379,260,000	11.49
Mr. Lin (Note 2)	77,696,000	25.90	77,696,000	2.35	77,696,000	2.35
	<u>165,296,000</u>	<u>55.10</u>	<u>1,041,296,000</u>	<u>31.55</u>	<u>456,956,000</u>	<u>13.84</u>
Public Shareholders:						
Underwriter/Sub-underwriters	-	-	776,960,000	23.54	2,708,460,000	82.07
Other Public Shareholders	134,716,000	44.90	1,481,876,000	44.91	134,716,000	4.09
	<u>300,012,000</u>	<u>100.00</u>	<u>3,300,132,000</u>	<u>100.00</u>	<u>3,300,132,000</u>	<u>100.00</u>

## LETTER FROM VINCO

*Notes:*

1. Mr. Xiang has undertaken to the Underwriter and the Company that he will and will procure to subscribe for not less than 291,660,000 Rights Shares.
2. As disclosed in the Announcement, Mr. Lin, being the former Director, has undertaken to the Underwriter and the Company that he will not and will not procure to exercise the subscription rights attaching to the 77,696,000 Shares owned by him.

The Independent Shareholders who are Qualifying Shareholders should note that, should they decide to subscribe for their full provisional allotment entitlements of the Rights Shares, there would not be any dilution effect on their interests in the Company. However, we would like to draw the Independent Shareholders' attention to the fact that, for those Independent Shareholders who do not wish to take up all or part of their provisional allotment entitlements to the Rights Shares, their corresponding interest in the Company will be diluted. In case all the Qualifying Shareholders (other than the Underwriter) decide not to take up the provisional allotments of the Rights Issue and the Underwriter has taken up all the provisional allotments in its capacity as the Underwriter, the percentage of shareholding of the other public Shareholders will be reduced from approximately 44.90% to approximately 4.09%. For purpose of maintaining the minimum 25% public float upon completion of the Rights Issue under the Rule 8.08 of the Listing Rules, the Underwriter/sub-underwriters have confirmed to the Company that, immediately on the date of the EGM, depending on the then circumstances, they will take appropriate steps including but not limited to appointment of a placing agents to facilitate the placing down of Shares immediately upon completion of the Rights Issue in order to enable the Company to maintain the minimum 25% public float as arrangements under notes (3), (4) and (5) to the shareholding table of the Company as stated under the heading "Changes in shareholding structure" in the Letter from the Board.

We are of the view that the dilution effect is not prejudicial to the Independent Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue.

### **Financial effects of the Rights Issue**

#### *a. Net asset value*

As disclosed in Appendix II of this Circular, the audited net assets of the Group as at 31 December 2006 was approximately HK\$29 million, based on 299,916,000 issued Shares as at 31 December 2006. After taking the net proceeds from the Rights Issue into account, the unaudited pro forma statement of adjusted net assets of the Group will increase from approximately HK\$29 million to approximately not less than HK\$146 million and not more than HK\$179 million. We noted that the proposed Rights Issue should enhance the net asset value of the Group.

## LETTER FROM VINCO

*b. Gearing ratio*

Based on Appendix I of this Circular, the gearing ratio of the Group was approximately 1.48%, which is calculated by dividing the consolidated total liabilities of the Group of approximately HK\$0.43 million over shareholders' equity of approximately HK\$29 million as at 31 December 2006. Assuming the Rights Issue had taken place as at 31 December 2006, the consolidated total liabilities of the Group would remain unchanged whereas the shareholders' equity of the Group would increase to approximately between HK\$146 million and HK\$179 million based on the net proceeds from the Rights Issue. Hence, the gearing ratio of the Group would improve by 80% to 0.29% and 84% to 0.24%. We noted that the Rights Issue results in a relatively favourable and effective gearing position to the Company.

*c. Working capital*

Based on Appendix I of this Circular, the consolidated cash and cash equivalents of the Group was approximately HK\$16 million as at 31 December 2006, the consolidated cash and cash equivalents of the Group would increase to approximately not less than HK\$133 million and not more than HK\$166 million, after taking into account of the net proceeds of the Rights Issue.

In this regard, we are of the view that the Rights Issue will improve the liquidity position of the Group.

Based on the foregoing, the Rights Issue will enhance the net assets value of the Group, reduce the indebtedness and improve the liquidity position of the Group. Hence, we are of the view that the Rights Issue is in the interest of the Company and the Independent Shareholders as a whole.

### CONCLUSION

Having taken into consideration of the following principal factors and reasons regarding the major terms of the Right Issue including:

- a) the net proceeds from the Rights Issue will enlarge the capital base and to enhance the financial position of the Company for future development of the Group;
- b) the Rights Issue would be a preferred method of equity financing as it will allow all the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future growth and development of the Company;
- c) to raise additional funds to enlarge the Company's capital bases as well as to provide the Company with sufficient cash or highly liquid assets for the suitable investment opportunities when they become available;



## LETTER FROM VINCO

- d) the Subscription Price and the theoretical ex-right price fall within the Comparables;
- e) the Underwriting Agreement is in line with the market practice;
- f) the dilution effect is not prejudicial to the Independent Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue; and
- g) the Rights Issue will enhance the net assets value of the Group, reduce the indebtedness and improve the liquidity position of the Group;

we are of the view that the terms of Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,  
For and on behalf of  
**Grand Vinco Capital Limited**  
**Alister Chung**  
*Managing Director*

## 1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the results and financial position of the Company for each of the three years ended 31 December 2006 as extracted from the annual reports of the Company for the respective years. The auditors' reports as set out in the annual reports of the Company for each of the three years ended 31 December 2006 were unqualified.

## RESULTS

	Year ended 31 December		
	2004 HK\$ (Restated)	2005 HK\$	2006 HK\$
Turnover	1,176,294	7,474,554	428,041
Impairment loss recognised in respect of investment in securities	(8,500,000)	-	-
Impairment loss recognised in respect of interest receivables	(299,829)	(1,714,777)	-
Impairment loss recognised in respect of available-for-sale investments	-	(13,428,045)	-
Investment manager's fee	(120,756)	(106,428)	(68,639)
Directors' emoluments	(59,558)	(45,957)	(53,096)
Other operating expenses	(1,275,082)	(1,691,010)	(1,493,489)
Loss before taxation	(9,078,931)	(9,511,663)	(1,187,183)
Taxation	-	-	-
Loss attributable to the shareholders	<u>(9,078,931)</u>	<u>(9,511,663)</u>	<u>(1,187,183)</u>
Basic loss per share	<u>(4.54) cents</u>	<u>(4.76) cents</u>	<u>(0.53) cents</u>

## FINANCIAL POSITION

	Year ended 31 December		
	2004 HK\$	2005 HK\$	2006 HK\$
Total assets	36,656,073	27,175,992	29,562,554
Total liabilities	(122,958)	(154,540)	(434,577)
	<u>36,533,115</u>	<u>27,021,452</u>	<u>29,127,977</u>

*Notes:* To conform with the presentation of year 2005, turnover for the year ended 31 December 2004 has been restated to include all bank interest income, realised and unrealised gain on other investment, which had been included in other revenues in the annual report of 2004. Other than the classification of turnover and other revenues, there was no restatement in the above figures. Details of the restatement of turnover were set out in note 5 to the audited financial statements for the year ended 31 December 2005.

## 2. AUDITED FINANCIAL STATEMENTS FOR THE TWO YEARS ENDED 31 DECEMBER 2006

The following is the audited income statements of the Company for the two financial years ended 31 December 2006, the audited balance sheets of the Company as at 31 December 2005 and 31 December 2006, the audited statement of changes in equity of the Company and the audited cash flow statements of the Company for the two years ended 31 December 2006, together with accompanying notes to the accounts extracted from the annual report of the Company for the year ended 31 December 2006.

### INCOME STATEMENT

*For the year ended 31 December 2006*

	<i>Note</i>	<b>2006</b> HK\$	<b>2005</b> HK\$
Turnover	5	428,041	7,474,554
Impairment loss recognised in respect of interest receivables		–	(1,714,777)
Impairment loss recognised in respect of available-for-sale investments		–	(13,428,045)
Investment manager's fee		(68,639)	(106,428)
Directors' emoluments	10	(53,096)	(45,957)
Other operating expenses	6	(1,493,489)	(1,691,010)
Loss before taxation		(1,187,183)	(9,511,663)
Taxation	7	–	–
Loss attributable to shareholders		<u>(1,187,183)</u>	<u>(9,511,663)</u>
Basic loss per share	9	<u>(0.53) cents</u>	<u>(4.76) cents</u>

**BALANCE SHEET***As at 31 December 2006*

	<i>Note</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
Non-current assets			
Available-for-sale investments	<i>11</i>	13,500,225	13,500,225
Current assets			
Deposits and prepayment		344,227	325,411
Financial assets at fair value through profit or loss	<i>12</i>	–	218,200
Cash and cash equivalents	<i>13</i>	15,718,102	13,132,156
		<u>16,062,329</u>	<u>13,675,767</u>
Current liabilities			
Accruals		434,577	154,540
Net current assets		<u>15,627,752</u>	<u>13,521,227</u>
Total assets less current liabilities		<u><u>29,127,977</u></u>	<u><u>27,021,452</u></u>
Capital and reserves			
Share capital	<i>14</i>	2,999,160	1,999,440
Reserves		26,128,817	25,022,012
Total equity attributable to equity shareholders of the Company		<u><u>29,127,977</u></u>	<u><u>27,021,452</u></u>
Net asset value per share	<i>16</i>	<u><u>HK\$0.10</u></u>	<u><u>HK\$0.14</u></u>

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Share capital HK\$	Share premium HK\$	Accumulated losses HK\$	Total HK\$
Balance at 1 January 2005	1,999,440	44,420,105	(9,886,430)	36,533,115
Loss for the year and total recognised income and expense	<u>–</u>	<u>–</u>	<u>(9,511,663)</u>	<u>(9,511,663)</u>
Balance at 31 December 2005 and at 1 January 2006	1,999,440	44,420,105	(19,398,093)	27,021,452
Loss for the year and total recognised income and expense	–	–	(1,187,183)	(1,187,183)
Issue of rights shares	999,720	2,999,160	–	3,998,880
Rights shares issuing expense	<u>–</u>	<u>(705,172)</u>	<u>–</u>	<u>(705,172)</u>
Balance at 31 December 2006	<u>2,999,160</u>	<u>46,714,093</u>	<u>(20,585,276)</u>	<u>29,127,977</u>

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to the shareholders subject to the provisions of the Articles of Association of the Company and a statutory solvency test. Under the Articles of Association of the Company, dividend may be declared or payable out of the profits and reserves of the Company lawfully available for distribution with the sanction of an ordinary resolution. Dividend may also be declared out of share premium account of the Company. As at 31 December 2006, the Company's reserve available for distribution amounted to approximately HK\$26,128,000 (2005: approximately HK\$25,022,000).

**CASH FLOW STATEMENT***For the year ended 31 December 2006*

	<i>Note</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
<b>Cash flows from operating activities</b>			
Loss before taxation		(1,187,183)	(9,511,663)
Adjustments for:			
Impairment loss recognised in respect of interest receivables		–	1,714,777
Impairment loss recognised in respect of available-for-sale investments		–	13,428,045
Change in fair value of financial assets at fair value through profit or loss		–	85,400
		<hr/>	<hr/>
Operating (loss)/profit before working capital changes		(1,187,183)	5,716,559
Increase in interest receivables		–	(577,980)
Decrease in other receivables		–	1,564,409
Increase in deposits and prepayment		(18,816)	(41,579)
Increase in accruals		280,037	31,582
		<hr/>	<hr/>
Net cash (used in)/from operating activities		(925,962)	6,692,991
<b>Cash flows from investing activities</b>			
Net addition of financial assets at fair value through profit or loss		–	(303,825)
Net decrease in financial assets at fair value through profit or loss		218,200	–
		<hr/>	<hr/>
Net cash from/(used in) investing activities		218,200	(303,825)
<b>Cash flows from financing activities</b>			
Issue of rights shares		3,998,880	–
Shares issuing expenses		(705,172)	–
		<hr/>	<hr/>
Net cash from financing activities		3,293,708	–
Net increase in cash and cash equivalents		2,585,946	6,389,166
Cash and cash equivalents at beginning of year		13,132,156	6,742,990
		<hr/>	<hr/>
Cash and cash equivalents at end of year	13	<u>15,718,102</u>	<u>13,132,156</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands and the Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. Its principal investment objective is to achieve medium-term capital appreciation by investing in listed and unlisted companies mainly in Hong Kong and the People's Republic of China (the "PRC").

The financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

### 2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has no material effect on how the results of operation and financial position of the Company are prepared and presented.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>7</sup>
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasure Share Transactions <sup>6</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs) (which also include Hong Kong Accounting Standards (HKASs) and Interpretations issued by the HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

#### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as financial assets at fair value through profit or loss are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other source. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

#### (c) Financial assets

The Company's financial assets are mainly classified into financial assets at fair value through profit or loss, available-for-sale investments and loans and receivables. All regular way purchase and sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchase or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

##### *Financial assets at fair value through profit or loss*

The investments that acquired principally for purpose of selling in the near term are classified as financial assets at fair value through profit or loss. They are measured at fair value without any deduction for transaction costs it may incur on sale or other disposal. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measure at fair value, with changes in fair value recognised directly in the profit or loss in the period in which they arise.



*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivable (including dividend, interest and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets in equity securities or are not classified in any of the other three categories under the scope of HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. For investments where there is no active market and whose fair value cannot be reliably measured, such investments are measured at cost less any impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

*Interest and other receivables*

Interest and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts. The impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**(d) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(e) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

**(f) Revenue recognition**

Gains or losses on sale of investments are recognised upon the execution of a legally binding and irrevocable contract of sale.

Dividend income from investments is recognised when the Company's right to receive payment has been established.

Interest income is recognised as it accrues using the effective interest method.

**(g) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from the initial recognition of assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(h) Foreign currencies**

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

**(i) Related parties**

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefits plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

**(j) Share-based payments**

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

Estimates and judgments 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.

The directors of the Company make estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

**Estimate of impairment of investment in unlisted debts and securities**

In the absence of information of an active market for unlisted debts and securities, the directors of the Company determine the amount within a range of reasonable impairment estimates by considering information from a variety of sources including:

- (i) Bi-annual review on the operating results and net asset value of an invested entity on balance sheet date;
- (ii) Historical operating performance and dividend distribution of the invested entity; and
- (iii) Gearing position and liquidity to meet working capital requirement of an invested entity.

## 5. TURNOVER

An analysis of the turnover of the Company is as follows:

	2006 HK\$	2005 HK\$
Interest on convertible loans receivable	–	577,980
Bank interest income	363,849	117,026
Realised and unrealised gain on financial assets at fair value through profit or loss	<u>64,192</u>	<u>6,779,548</u>
	<u><u>428,041</u></u>	<u><u>7,474,554</u></u>

No segment information is presented as the Company has only one business activity, namely investment holding, which is principally operating in Hong Kong and the PRC.

## 6. OTHER OPERATING EXPENSES

	2006 HK\$	2005 HK\$
Other operating expenses include the following:		
Auditors' remuneration	70,000	65,000
Licence fee	612,000	612,000
Listing fee	145,000	145,000
Legal and professional fee	<u>293,809</u>	<u>456,820</u>

## 7. TAXATION

- (a) No provision for Hong Kong profits tax has been made in the financial statements as the Company has no assessable profit for both years.
- (b) The taxation on the Company's loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong, the principal place of Company's operations, as follows:

	2006 HK\$	2005 HK\$
Loss before taxation	<u>(1,187,183)</u>	<u>(9,511,663)</u>
Tax at the domestic income tax rate of 17.5%	(207,757)	(1,664,541)
Tax effect of non-taxable income	(63,674)	(20,777)
Deferred tax assets not recognised	<u>271,431</u>	<u>1,685,318</u>
Taxation for the year	<u><u>–</u></u>	<u><u>–</u></u>

As at 31 December 2006, the Company had unused tax losses of approximately HK\$12 million (2005: HK\$11 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit stream. The unrecognised tax losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the balance sheet date.

## 8. DIVIDEND

No dividend has been paid or declared by the Company during the year (2005: nil).

## 9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$1,187,183 (2005: HK\$9,511,663) and the weighted average number of 225,416,318 (2005: 199,944,000) ordinary shares in issue.

The options do not have dilutive effect because the exercise price of the options exceeds the average market price of ordinary shares during the years ended 31 December 2005 and 2006. No diluted loss per share has been presented for both years.

## 10. DIRECTORS' EMOLUMENTS

	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Fees		
Executive directors	26,644	27,062
Non-executive directors	12,684	5,055
Independent non-executive directors	13,768	13,840
	<u>53,096</u>	<u>45,957</u>
Other emoluments of executive directors	<u>–</u>	<u>–</u>
	<u><u>53,096</u></u>	<u><u>45,957</u></u>

The director's fee of each director for the years ended 31 December 2006 and 2005 is set out below:

	2006 HK\$	2005 HK\$
Executive directors		
Xiang Xin	5,000	5,001
Ng Kwong Chue, Paul <i>(redesignated as non-executive director on 2 May 2006)</i>	1,644	5,001
Chan Cheong Yee	5,000	5,001
Kwok Chi Hung	5,000	5,000
Ng Tin Sang	5,000	3,000
Si Wei <i>(note a)</i>	1,658	55
Lin Zhiqun Brett <i>(note b)</i>	3,342	–
Luo Xiu Qing <i>(note c)</i>	–	2,002
Li Tong Yu <i>(note c)</i>	–	2,002
	<hr/> 26,644	<hr/> 27,062
Non-executive directors		
Wang Qing Yu	5,000	55
Yap Shun Chung <i>(note d)</i>	4,328	5,000
Ng Kwong Chue, Paul <i>(redesignated as non-executive director on 2 May 2006)</i>	3,356	–
	<hr/> 12,684	<hr/> 5,055
Independent non-executive directors		
Wang Xin, David	5,000	5,001
Zang Hong Liang	5,000	5,000
Wong Wang Tai <i>(note e)</i>	3,631	2,822
Lee Wing Hang <i>(note f)</i>	137	–
Yeung Chin Cheung <i>(note g)</i>	–	987
Peng Xue Jun <i>(note h)</i>	–	15
Chan Ming Fai <i>(note i)</i>	–	15
	<hr/> 13,768	<hr/> 13,840
	<hr/> <b>53,096</b>	<hr/> <b>45,957</b>

Notes:

- (a) Resigned on 2 May 2006
- (b) Appointed on 2 May 2006
- (c) Resigned on 27 May 2005
- (d) Resigned on 13 November 2006
- (e) Resigned on 23 September 2006
- (f) Appointed on 22 December 2006
- (g) Resigned on 14 March 2005
- (h) Resigned on 27 September 2004
- (i) Resigned on 30 December 2004

The five highest paid employees during the year included five directors (2005: five directors), details of whose emoluments are set out in above.

During the years ended 31 December 2006 and 2005, no remuneration were paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office and no director waived any emoluments.

#### 11. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK\$	2005 HK\$
Unlisted equity securities	13,500,225	13,500,225
Unlisted convertible notes	8,928,045	8,928,045
Less: impairment loss recognised	8,928,045	8,928,045
	—	—
	<u>13,500,225</u>	<u>13,500,225</u>

The following is a list of the Company's investments as at 31 December 2006:

##### (a) Unlisted equity securities

Name of invested company	Cost HK\$	2006		% of total assets of the Company	2005 Cost HK\$
		Impairment loss recognised HK\$	Carrying amount HK\$		
Jinan LuGu (HK) Technology Development Limited (note (i))	9,000,225	—	9,000,225	30.44%	9,000,225
SNG Hong Kong Limited (note (ii))	9,000,000	4,500,000	4,500,000	15.22%	9,000,000

##### (b) Unlisted convertible notes, unsecured:

Name of issuer	Cost HK\$	Impairment Loss recognised HK\$	Carrying amount HK\$	Interest rate	Maturity date	% of total assets of the Company
King Tiger Technology Company Limited – unsecured (note (iii))	8,928,045	8,928,045	—	6.5% p.a.	15 January 2006	—

Notes:

##### (i) Jinan LuGu (HK) Technology Development Limited ("LuGu")

LuGu is incorporated in Hong Kong and principally engaged in investment holding. It indirectly holds 59.5% interest in a company incorporated in the People's Republic of China ("PRC"), of which the principal activity is manufacturing and trading of 陶瓷微電路基板 (Ceramic Microcircuit Substrates), 微電路模塊 (Microcircuit Modules), 陶瓷電子元(組)件 (Ceramic Electronic Apparatus Parts (Discrete)).

The Company holds 250 ordinary shares in LuGu, representing 25% interest in the issued share capital of LuGu. The investment in LuGu is measured at cost less impairment loss because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reasonably.

LuGu is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, investment in LuGu is classified as available-for-sale investment in the financial statements. No dividend was received during the year (2005: nil).

(ii) *SNG Hong Kong Limited ("SNG")*

SNG is incorporated in Hong Kong and principally engaged in investment holding. At 31 December 2006, SNG indirectly held 38.5% interest in a company incorporated in the PRC, of which the principal activity is manufacturing and trading of 發光二極管芯片 (LED Chips).

The Company holds 3,750 ordinary shares in SNG, representing 30% interest in the issued share capital of SNG. The investment in SNG is measured at cost less impairment loss because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reasonably.

SNG is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, investment in SNG is classified as available-for-sale investment in the financial statements. No dividend was received during the year (2005: nil).

(iii) *King Tiger Technology Company Limited ("King Tiger")*

King Tiger is incorporated in Taiwan and principally engaged in investment holding. It indirectly holds 49% interest in 安徽精通科技有限公司 (AnHui JingTong Science & Technology Co. Ltd.) ("AnHui JingTong"). AuHui JingTong is registered in the PRC as foreign investment enterprises by equity joint venture and is principally engaged in the manufacturing of solder ball by the Ball Grid Array technology.

The Company holds a convertible loan note with principal amount of USD1,144,000 carrying the right to convert the loan note into shares, directly or indirectly, in AuHui JingTong. The loan note is unsecured, bears interest at 6.5% per annum and has a maturity date on 15 January 2006. At any date before the maturity, King Tiger has the right to redeem the whole or part of the loan note. On or before the 6 months ended after the maturity date, the Company has the right to convert the outstanding principal amount of the loan note into shares, directly or indirectly, in AuHui JingTong. Interest is calculated on 31 December of each year and payable in cash.

With two supplemental agreements signed on 15 November 2004 and 8 April 2005 respectively, the Company has the right to request King Tiger to settle accrued interest annually or settle in one lump sum on the maturity date. If the Company chooses to request settlement upon maturity, it has the right to request payment by cash or to convert the accrued interest into additional percentage of interest in AuHui JingTong so that the share of the net asset value of AuHui JingTong at the date of conversion be equal to the aggregate amount of the principal and accrued interest thereon.



As there were disputes between the shareholders of AuHui JingTong which hindered the conversion of the shareholding to King Tiger or to the Company directly, impairment loss for the full investment cost had been recognised during the year ended 31 December 2005.

King Tiger has defaulted on the payment of interest since 31 December 2003. No interest income recognised during the year (2005: HK\$577,980).

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006 HK\$	2005 HK\$
Equity securities, listed in Hong Kong, at fair value	<u>–</u>	<u>218,200</u>

## 13. CASH AND CASH EQUIVALENTS

	2006 HK\$	2005 HK\$
Cash at bank	15,108,168	13,006,913
Cash on hand	–	200
Cash held in the securities account of a securities company	<u>609,934</u>	<u>125,043</u>
	<u>15,718,102</u>	<u>13,132,156</u>

Bank balances comprise short-term bank deposits at prevailing market interest rates. The fair value of these assets at 31 December 2006 was approximate to the corresponding carrying amount.

## 14. SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2005, 31 December 2005 and 31 December 2006	<u>2,000,000,000</u>	<u>20,000,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2005 and 31 December 2005	199,944,000	1,999,440
Issue of rights shares	<u>99,972,000</u>	<u>999,720</u>
At 31 December 2006	<u>299,916,000</u>	<u>2,999,160</u>

The Company completed a rights issue on 29 September 2006, which raised gross proceeds of approximately HK\$4.0 million by issuing 99,972,000 rights shares at HK\$0.04 each.

## 15. SHARE OPTIONS

Under the share option scheme approved by the sole shareholder of the Company on 18 July 2002 (the "Scheme"), the board of directors of the Company may, at their discretion, invite any full-time employee, director (including non-executive director and independent non-executive director), any part time employee with weekly working hours of 15 hours and above of the Company or its subsidiaries, any advisor or consultant to the Company or to any of its subsidiaries and adviser, consultant, agent or business affiliates who has contributed to the Company to subscribe for shares in the Company.

Pursuant to the Scheme, the overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Scheme and other share options schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue at any time. Any further grant of options in excess of this limit is subject to the shareholders' approval of the Company in a general meeting with such participant(s) and his associate(s) abstaining from voting.

The offer of a grant of share options may be accepted within 7 days from the date of the offer, upon payment of a consideration of HK\$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the highest of (a) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share on the date of grant.

Details of the options granted under the Scheme and outstanding at 31 December 2006 are as follows:

Date of grant	Option period	Number of share options		Outstanding as at 31 December 2006	Price per share to be paid on exercise of options HK\$ (adjusted)
		Outstanding as at 1 January 2006 (adjusted)	Granted during the year		
29/1/2003	28/8/2003 – 27/8/2013	24,000,000	-	24,000,000	0.2083

As a result of the Rights issue completed on 29 September 2006 as described in note 14, the exercise price of the options was adjusted from HK\$0.25 to HK\$0.2083 per share and the number of shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding options are 24,000,000.

As at 31 December 2006, the number of shares issuable under the Scheme represented approximately 8% (2005: approximately 10%) of the Company's shares in issue as at that date.

No share options were exercised under the Scheme during the year.

## 16. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset value of the Company as at 31 December 2006 of HK\$29,127,977 (2005: HK\$27,021,452) and 299,916,000 (2005: 199,944,000) ordinary shares in issue at that date.

**17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's major financial instruments include investments in listed and unlisted securities, interest and other receivables and bank balances. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk***(i) Price risk*

The Company's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Company is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

*(ii) Interest rate risk*

The Company's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

In addition, the Company has exposure to fair value interest rate risk through the impact of the rate changes on unlisted convertible notes which are carried at fixed interest rate.

The Company has not used any interest rate swaps to hedge its exposure to interest rate risk.

*(iii) Foreign currency risk*

Foreign currency risk is the risk that the value of financial instrument will fluctuate due to the change in foreign exchange rates. The Company's assets and liabilities are denominated in either Hong Kong dollars or United State dollars. The Company does not expect any significant movement in the exchange rate of United State dollars to Hong Kong dollars.

**Credit risk**

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. The Company reviews the recoverable amount of each individual receivable at each balance sheet date to ensure the adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Company's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit rating assigned by international credit rating agencies.

## 18. CONNECTED AND RELATED PARTY TRANSACTIONS

	2006 HK\$	2005 HK\$
Investment management fee paid to		
China Everbright Securities (HK) Limited ( <i>note a</i> )	<u>68,639</u>	<u>106,428</u>
Brokerage commission paid to		
China Everbright Securities (HK) Limited ( <i>note b</i> )	<u>5,434</u>	<u>28,367</u>
License fee paid to		
New Times Investment Management Limited ( <i>note c</i> )	<u>612,000</u>	<u>612,000</u>
License deposit paid to		
New Times Investment Management Limited	<u>102,000</u>	<u>102,000</u>

*Note:*

- (a) The Company has entered into an investment management agreement with China Everbright Securities (HK) Limited (“CES”) for a period of three years commencing from 1 June 2003 in consideration of a payment of a fee calculated at 0.25% per annum of the net asset value of the Company as at the last dealing date on the Stock Exchange in each calendar month or such other valuation date as considered appropriate by the Board and payable on a monthly basis on a business date immediately after each valuation date. In addition, CES is entitled to a bonus fee equivalent to 10% of the audited profit before tax of each financial year of the Company payable on the business date immediately after the publication of the Company’s final audited result for the year. CES is regarded as a connected person of the Company for the purpose of the Listing Rules.
- (b) Brokerage commission rate is charged at the rate ranged from 0.25% to 1% of the value of the transactions.
- (c) The Company has entered into a license agreement with New Times Investment Management Limited (“NTIML”), a company of which a director of the Company, Mr. Xiang Xin is also a director (the “License Agreement”). Pursuant to the License Agreement, the Company was granted the right to occupy an office unit and to use the available furniture, equipment and general administrative services. In return, the Company shall pay a deposit of HK\$102,000 and a monthly license fee of HK\$51,000 to NTIML. The License Agreement commenced on 1 April 2004 and may terminate when 30 days notice is given by either party. The deposit was included in deposit and prepayment in the balance sheet.

Details of compensation of key management personnel are set out in note 10 to the financial statements.

**3. STATEMENT OF INDEBTEDNESS**

At the close of business on 31 July 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Company did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or material contingent liabilities.

**4. 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 or outlook of the Company since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up.

**5. WORKING CAPITAL**

The Directors are of the opinion that, taking into account the Company's internal resources and the estimated net proceeds from the Rights Issue and the Warrants Subscription, the Company will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this Circular.

<b>APPENDIX II    UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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**UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

The following is the unaudited pro forma statement of adjusted net tangible assets of the Company which has been prepared to illustrate the effect of the Rights Issue on the net tangible assets of the Company as if the Rights Issue had been completed on 31 December 2006. As it is prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Company upon completion of the Rights Issue.

The unaudited pro forma statement of adjusted net tangible assets of the Company is prepared based on the net tangible assets of the Company as at 31 December 2006 as extracted from the annual report of the Company for the year ended 31 December 2006 and is adjusted for the effect of the Rights Issue.

	<b>Audited net tangible assets of the Company as at 31 December 2006 HK\$</b>	<b>Audited net tangible assets of the Company per Share before the Rights Issue HK\$</b>
Before completion of the Rights Issue	<u>29,127,977</u>	<u>0.10</u>
		<i>(note 1)</i>

No exercise of Outstanding Options and the Warrants:

	<b>Audited net tangible assets of the Company as at 31 December 2006 HK\$</b>	<b>Estimated net proceeds from the Rights Issue HK\$</b>	<b>Unaudited proforma adjusted net tangible assets of the Company immediately after the Rights Issue HK\$</b>	<b>Unaudited proforma adjusted net tangible assets of the Company per Share immediately after the Rights Issue HK\$</b>
After completion of the Rights Issue	<u>29,127,977</u>	<u>117,000,000</u>	<u>146,127,977</u>	<u>0.04</u>
		<i>(note 2)</i>		<i>(note 3)</i>

## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Full exercise of Outstanding Options and the Warrants:

	Audited net tangible assets of the Company as at 31 December 2006 HK\$	Proceeds from the exercise of share options and warrants HK\$	Estimated net proceeds from the Rights Issue HK\$	Unaudited Proforma adjusted net tangible assets of the Company immediately after the Rights Issue HK\$	Unaudited proforma adjusted net tangible assets of the Company per Share after the Rights Issue HK\$
After completion of the Rights Issue	<u>29,127,977</u>	<u>25,393,000</u>	<u>150,000,000</u>	<u>204,520,977</u>	<u>0.05</u>
		<i>(note 4)</i>	<i>(note 5)</i>		<i>(note 6)</i>

*Note:*

1. The net tangible assets per Share as at 31 December 2006 is calculated based on the 299,916,000 shares in issue as at 31 December 2006.
2. The estimated net proceeds from the Rights Issue are based on 3,000,120,000 Rights Shares at a price of HK\$0.04 per Rights Share, after deducting the estimated underwriting fees and other related expenses to be incurred by the Company.
3. The unaudited proforma adjusted net tangible assets of the Company per Share immediately after the Rights Issue is calculated based on the 299,916,000 shares in issue as at 31 December 2006 together with the 3,000,120,000 Rights Shares.
4. Proceeds from the exercise of share option and warrants are based on 24,000,000 outstanding options at an exercise price of HK\$0.2083 as at 31 December 2006 and 59,983,200 warrants shares at an issue price of HK\$0.01 and an exercise price of HK\$0.33.
5. The estimated net proceeds from the Rights Issue are based on 3,838,992,000 Rights Shares at a price of HK\$0.04 per Rights Share, after deducting the estimated underwriting fees and other related expenses to be incurred by the Company.
6. The unaudited proforma adjusted net tangible assets of the Company per Share immediately after the Rights Issue is calculated based on the 299,916,000 shares in issue as at 31 December 2006, 24,000,000 shares from the exercise of the outstanding options and 59,983,200 warrants shares together with the 3,838,992,000 Rights Shares.

## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

### LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMPANY

*The following is a text of the letter received from the reporting accountants of the Company, Graham H.Y. Chan & Co., in respect of the unaudited pro forma financial information of the Company which has been prepared for the purpose of incorporation into this circular.*



**GRAHAM H.Y. CHAN & CO.**

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG

Unit 1,15/F., The Center,  
99 Queen's Road Central,  
Hong Kong

### ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

#### TO THE DIRECTORS OF SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED

We report on the unaudited pro forma statement of adjusted net tangible assets of Sino Technology Investments Company Limited (the "Company") which has been prepared by the directors for illustrative purposes only, to provide information about how the proposed rights issue of not less than 3,000,120,000 rights shares and not more than 3,838,992,000 rights shares at HK\$0.04 per rights share payable in full on acceptance in the proportion of ten rights shares for every share held on the record date might have affected the financial information presented, for inclusion in Appendix II of the circular dated 17 September 2007. (the "Circular"). The basis of preparation of the unaudited pro forma statement of adjusted net tangible assets is set out on pages 68 to 69 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 statement of adjusted net tangible assets 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.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma statement of adjusted net tangible assets 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 statement of adjusted net tangible assets 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 (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. 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 statement of adjusted net tangible assets 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 statement of adjusted net tangible assets 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 Company and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted net tangible assets as disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

The unaudited pro forma statement of adjusted net tangible assets 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 provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Company as at 31 December 2006 or any future date.

## **Opinion**

In our opinion:

- a. the unaudited pro forma statement of adjusted net tangible assets 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 Company; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted net tangible assets as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Graham H.Y. Chan & Co.**

*Certified Public Accountants (Practising)*

Hong Kong

17 September 2007

## 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 in this circular misleading.

## 2. SHARE CAPITAL

### (a) Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Rights Issue will be, as follows:

*As at the Latest Practicable Date*

<i>Authorised:</i>	<i>HK\$</i>
<u>2,000,000,000</u> Shares (As at the Latest Practicable Date)	<u>20,000,000</u>
<u>5,000,000,000</u> Shares (To be increased)	<u>50,000,000</u>

*Assuming no subscription rights attaching to the Outstanding Options and the Warrants are exercised on or before the Record Date:*

*Issued and fully paid:*

300,012,000 Shares (As at the Latest Practicable Date)	3,000,120
3,000,120,000 Rights Shares to be issued pursuant to the Rights Issue	30,001,200
<u>3,300,132,000</u> Shares upon completion of the Rights Issue	<u>33,001,320</u>

*Assuming all subscription rights attaching to the Outstanding Options and the Warrants are exercised in full on or before the Record Date:*

*Issued and fully paid:*

300,012,000	Shares (As at the Latest Practicable Date)	3,000,120
23,904,000	Shares to be issued upon exercise of the Outstanding Option in full	239,040
59,983,200	Shares to be issued upon exercise of the Warrants in full	599,832
3,838,992,000	Rights Shares to be issued pursuant to the Rights Issue	38,389,920
<u>4,222,891,200</u>	Shares upon completion of the Rights Issue	<u>42,228,912</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 Rights 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 Rights Shares in fully paid form.

As at the Latest Practicable Date, the Company had Outstanding Options to subscribe for 23,904,000 Shares at the exercise price of HK\$0.2083 per Share (subject to adjustment) and the Warrants to subscribe for 59,983,200 Shares, at the Exercise Price of HK\$0.33 per Share (subject to adjustment). Save for the Outstanding Options and the Warrants, there are no outstanding warrants, share options or other securities which are convertible into or give rights to subscribe for Shares.

Save as disclosed above, no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital since 31 December 2006 (the date to which the latest published audited financial statements of the Company were made up).

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

**(b) Listing**

The Shares are listed and traded on the main board of the Stock Exchange. No part of the equity or debt securities of the Company is listed or dealt in, nor any listing of or permission to deal in the Shares is being or proposed to be sought on, any other stock exchange.

### 3. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were 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 the provisions of the SFO) or which were recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”) were as follows:

#### (a) Ordinary Shares

Name of Director	Capacity	Number of issued Shares interested	Approximate percentage of interests
Xiang Xin	Interest through a controlled corporation	87,600,000 (L) (Note 2)	29.2%

*Notes:*

1. The letter “L” denotes the Directors’ long position (i.e. interests) in the Shares.
2. The 87,600,000 Shares are held by Harvest Rise Investments Limited, a private company wholly and beneficially owned by Mr. Xiang. Mr. Xiang is the sole director of Harvest Rise Investments Limited. Mr. Xiang has undertaken to the Underwriter and the Company that he will and will procure to subscribe for not less than 291,660,000 Rights Shares.

## (b) Share Options

Name of Director	Date of grant	Exercise Period	Capacity	Exercise price per underlying Share HK\$	Number of underlying shares of the Company comprised the Options outstanding as at the Latest Practicable Date	Approximate percentage of interest
Mr. Xiang (Note 1)	29 January 2003	28 August 2003 to 27 August 2013	Interest of the spouse	0.2083	960,000	0.320%
Ng Kwong Chue Paul (Note 2)	29 January 2003	28 August 2003 to 27 August 2013	Beneficial owner	0.2083	1,200,000	0.400%
David Wang Xin (Note 2)	29 January 2003	28 August 2003 to 27 August 2013	Beneficial owner	0.2083	480,000	0.160%
Advisors (Note 3)	29 January 2003	28 August 2003 to 27 August 2013	Beneficial owners	0.2083	21,264,000	7.088%

*Note:*

- Mr. Xiang's interest in the share options of the Company is through Ms. Kung Ching, the spouse of Mr. Xiang, was granted Options as an advisor of the Company to subscribe for 960,000 Shares pursuant to the Share Option Scheme.
- Mr. Ng Kwong Chue Paul was granted the Options as an advisor of the Company and Mr. David Wang Xin was granted the Options as the independent non-executive Director of the Company to subscribe for 1,200,000 and 480,000 Shares respectively pursuant to the Share Option Scheme.
- The 21,264,000 Outstanding Options were granted to advisors to the Company on 29 January 2003 and the details was set out below:

Name of advisors	Number of underlying shares of the Company comprised the Options outstanding as at Latest Practicable Date	Approximate Percentage of interests
Chan Hoi Foon	124,800	0.042%
Chan Hoi Fung	480,000	0.160%
Chan Kun Yu	96,000	0.032%
Chan Kwok Kei	48,000	0.016%
Chan Mei Yee	48,000	0.016%
Chan Suk Hing	1,440,000	0.480%
Chan Yin Fong	96,000	0.032%
Cheong Wai Shing	96,000	0.032%
Cheung Chi Ming	48,000	0.016%
Chiu Yiu Sum	48,000	0.016%

Name of advisors	Number of underlying shares of the Company comprised the Options outstanding as at Latest Practicable Date	Approximate Percentage of interests
Chou Wai Fun	96,000	0.032%
Chow Ming Fuk	144,000	0.048%
Fu Ngan Fong	48,000	0.016%
Fung Yim Pui	144,000	0.048%
Ho Chi Kee Franky	480,000	0.160%
Ho King Yin	288,000	0.096%
Ho Yin Fong Sammy	96,000	0.032%
Hsieh Kuan Hua	1,200,000	0.400%
Hui Ching Wan	144,000	0.048%
Kong Wing Fai	1,200,000	0.400%
Kwok Yan Sin	144,000	0.048%
Lam Chik Chung	96,000	0.032%
Lam Hak Ha Jasper	288,000	0.096%
Lee Shuk Yee	96,000	0.032%
Leung Ka Man	124,800	0.042%
Li Hang Sze	124,800	0.042%
Liu Kam Fai	96,000	0.032%
Lui Yiu Wing	96,000	0.032%
Ma Kit Wai	96,000	0.032%
Ng Ka Yuen Cecilia	480,000	0.160%
Ng Man On	144,000	0.048%
Or Wan Yiu	124,800	0.042%
Or Yuen Yuen	192,000	0.064%
Peng Xue Jun	1,440,000	0.480%
Poon Kuai In	1,200,000	0.400%
Poon Man Sze	48,000	0.016%
Qu Bo	1,200,000	0.400%
Shiu Shu Ming	1,440,000	0.480%
Shu Kwan Long	1,200,000	0.400%
Siu Ka Yan	48,000	0.016%
Sum Pak Kin	48,000	0.016%
Tam Siu Hong	48,000	0.016%
Wang Yan Li	2,400,000	0.800%
Wong Chan Wing	144,000	0.048%
Wong Hon Hang	48,000	0.016%
Wong Ka Man	48,000	0.016%
Wong Man Sin	48,000	0.016%
Wong Sau Ching	96,000	0.032%
Wong Wing Yiu	1,200,000	0.400%
Wong Yuk Fung	96,000	0.032%
Woo Dick Wai	144,000	0.048%
Yau Kwun Hong	124,800	0.042%
Yeung Chin Cheung	1,440,000	0.480%
Yeung Hoi Ping	336,000	0.112%

4. All the Outstanding Options were granted to each grantee at a consideration of HK\$1.00.
5. No relevant Outstanding Options have been exercised, cancelled or lapsed up to and including the Record Date.

Save as disclosed above, none of the Directors or the chief executives of the Company or any of their associates had, as at the Latest Practicable Date, 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 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 the provisions of the SFO) or which were recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

#### 4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company 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 were, 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 the Company or had any option in respect of such capital:

##### A. Interest in issued Shares

Name of Shareholder	Capacity	Number of issued Shares held	Approximate percentage of interests
Harvest Rise Investments Limited ( <i>Note 2</i> )	Corporate	87,600,000 (L)	29.20%
Kung Ching	Family Corporate	87,600,000 (L)	29.20%
AP Wireless Net Inc. ( <i>Note 3</i> )	Corporate	77,696,000 (L)	25.90%

*Notes:*

1. The letter "L" denotes the Shareholders' long position (i.e. interests) in the Shares.
2. Harvest Rise Investments Limited is a private company wholly and beneficially owned by Mr. Xiang. Mr. Xiang is the sole director of Harvest Rise Investments Limited. Mr. Xiang has undertaken to the Underwriter and the Company that he will and will procure to subscribe for not less than 291,660,000 Rights Shares.
3. Ms. Kung Ching, the spouse of Mr. Xiang, are deemed to have interest in 87,600,000 Shares held by Harvest Rise Investment Limited as mentioned in note 2 above.
4. AP Wireless Net Inc. is a private company wholly and beneficially owned by Mr. Lin being a former Director. Mr. Lin is the sole director of AP Wireless Net Inc.. Mr. Lin has undertaken to the Underwriter and the Company that he will not and will not procure to exercise the subscription rights attaching to the 77,696,000 Shares owned by him as at the Latest Practicable Date.

**B. Interest in unissued Shares**

Name of Shareholder	Number of unissued Shares held	Approximate percentage of interests
Ms. Leung Rui Ling, Florence ("Ms. Leung")	59,983,200 (L) (Note 2)	16.67%
Eternal Pearl Securities	3,239,160,000 (L) (Note 3)	98.15%

*Notes:*

1. The letter "L" denotes the long position (i.e. interests) in the Shares.
2. Ms. Leung's interest in the unissued Shares arising out of her subscription right attaching to the Warrants to subscribe for 59,983,200 Warrants Shares under the Warrants Subscription Agreement.
3. Eternal Pearl Securities' interest in unissued Shares arises out of its obligation as one of the Underwriter under the Underwriting Agreement.

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, no other person (not being a Director or chief executive of the Company) had, or was deemed or taken to have an interest or short position in the Shares and underlying Shares 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 were, 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 the Company or held any option in respect of such capital.



## 5. LITIGATION

As at the Latest Practicable Date, the Company did not engage in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company or was, or might become, a party.

## 6. SERVICE CONTRACTS

As at the Latest Practicable Date none of the Directors had entered into any service contracts with the Company (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

## 7. QUALIFICATION AND CONSENT OF EXPERT

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

<b>Name</b>	<b>Qualification</b>
Vinco	A licensed corporation under the SFO permitted to engage in types 1 and 6 of the regulated activities as defined in the SFO
Graham H.Y. Chan & Co. ("Graham")	Certified Public Accountants (Practising)

Vinco and Graham have given and have not withdrawn its written consent to the issue of this circular with the inclusion of its letter as set out in this circular and references to its name in the form and context in which it appears respectively.

As at the Latest Practicable Date, Vinco and Graham did not have any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

As at the Latest Practicable Date, Vinco and Graham did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to the Company since 31 December 2006, being the date to which the latest published audited financial statements of the Company were made up.

**8. EXPENSES**

The expenses in connection with the Rights Issue, including underwriting commission, financial advisory, management, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$3.4 million and are payable by the Company.

**9. MATERIAL CONTRACTS**

The following contracts have been entered into by the Company (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular and are or may be material:

- (a) the underwriting agreement dated 18 July 2006 entered into between Ms. Liu Yanhua, Baron Capital Limited (being the underwriters) and the Company in relation to the rights issue of 99,972,000 right Shares (in the proportion of 1 right Shares for every two Shares held on then record date) at HK\$0.04 per rights Share;
- (b) the Underwriting Agreement; and
- (c) the Warrants Subscription Agreement.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Company within the two years immediately preceding the date of the circular which are or may be material.

**10. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE**

<b>Registered office</b>	Century Yard, Cricket Square Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman Cayman Islands British West Indies
<b>Head office and principal place of business in Hong Kong</b>	Suites 2305-2307 23/F, Two Chinachem Exchange Square 338 King's Road North Point Hong Kong
<b>Authorised representatives</b>	Xiang Xin Room 4607 Convention Plaza Apartments 1 Harbour Road Wanchai Hong Kong

	Sze Lin Tang Room A, 3/F Block 2 Provident Centre North Point Hong Kong
<b>Company secretary</b>	Sze Lin Tang A member of Hong Kong Institute of Certified Public Accountants
<b>Qualified accountant</b>	Wong Chak Keung A member of Hong Kong Institute of Certified Public Accountants and certified practising accountant of CPA Australia
<b>Legal advisers to the Company in relation to Rights Issue</b>	Michael Li & Co 14/F, Printing House 6 Duddell Street Central Hong Kong
<b>Auditors and reporting accountants in relation to the Rights Issue</b>	Graham H.Y. Chan & Co. Certified Public Accountants (Practising) Unit 1, 15/F The Center 99 Queen's Road Central Hong Kong
<b>Principal share registrar and transfer office</b>	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman KY1-1107 Cayman Islands
<b>Hong Kong branch share registrar</b>	Union Registrars Limited Room 1803 Fook Lee Commercial Centre Town Place 33 Lockhart Road Wanchai Hong Kong

*New address effective on 1 October 2007*

Room 1901-02

Fook Lee Commercial Centre

Town Place

33 Lockhart Road

Wanchai

Hong Kong

**Principal banker**

Bank of China (Hong Kong) Limited

1 Garden Road

Hong Kong

**Underwriter**

Eternal Pearl Securities Limited

Units 2901-06

29/F, Cosco Tower

183 Queen's Road Central

Hong Kong

**11. PARTICULARS OF THE DIRECTORS**

**(a) Particulars**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive Directors:</i>		
Xiang Xin	Room 4607 Convention Plaza Apartments 1 Harbour Road Wanchai Hong Kong	Chinese
Chan Cheong Yee	Suite F, 29/F Tower 10 South Horizons Ap Lei Chau Hong Kong	Chinese
Kwok Chi Hung	5B Grand Court 16 Shan Kwong Road Happy Valley Hong Kong	Chinese

Name	Address	Nationality
Ng Tin Sang	Flat B, 19/F Block 26 Laguna City Kowloon Hong Kong	Chinese
<i>Non-executive Directors:</i>		
Wang Qing Yu ( <i>Chairman</i> )	Room 1805, Block 5 10 Che Dao Gou Hai Dian District Beijing PRC	Chinese
Ng Kwong Chue, Paul	Flat A, 18/F Block 12 Provident Centre 43 Wharf Road North Point Hong Kong	Chinese
<i>Independent Non-executive Directors:</i>		
David Wang Xin	77 Robinson Road #15-03 SIA Building Singapore	Singaporean
Zang Hong Liang	No. 5092 2 Ji Chang Bei Road Chao Yang District Beijing PRC	Chinese
Lee Wing Hang	Flat F, 3/F Block 1 Kornhill Garden Quarry Bay Hong Kong	Chinese

Name	Address	Nationality
<i>Authorised representatives:</i>		
Xiang Xin	Room 4607 Convention Plaza Apartments 1 Harbour Road Wanchai Hong Kong	Chinese
Size Lin Tang	Room A, 3/F Block 2 Provident Centre North Point Hong Kong	Chinese

**(b) Qualifications**

*Executive Directors:*

**Mr. Xiang Xin**, aged 44, an executive Director, joined the Company in January 2003. He has worked for quite a few large organisations in the PRC and engaged in technology project management and corporate strategy research for a long time. He also has many years of experience in project investment and telecommunications network businesses. Mr. Xiang holds a Bachelor Degree in Science and a Master Degree in Engineering from Nanjing University of Science & Technology. Mr. Xiang did not hold any other directorships in listed companies for the last three years. As at the Latest Practicable Date, Mr. Xiang, through his private company, Harvest Rise Investment Limited, was beneficially interested in 87,600,000 Shares and was also deemed to have interest in 960,000 Outstanding Options by virtue of his spouse's interest in 960,000 Outstanding Options.

**Mr. Chan Cheong Yee**, aged 43, an executive Director, joined the Company in June 2003. Mr. Chan has obtained a Bachelor of Science degree from the College of Business Administration of the University of South Florida in the United States. Mr. Chan has also been appointed as an independent non-executive director of SJTU Sunway Software Industry Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, with effect from 27 March 2007. On top of the directorships mentioned above, from 2004 to 2006, Mr. Chan was an independent non-executive director of Cosmopolitan International Holdings Limited, a company listed on the Stock Exchange, and from 1 June 2002 to 30 June 2003, he was an executive director of Haywood Investments Limited (currently Apex Capital Limited), an investment company listed on the Stock Exchange under Chapter 21 of the Listing Rules. From May 2004 to February 2005, he was an independent non-executive director of GP Nano Technology Group Limited, a company listed on the Growth Enterprise

Market of the Stock Exchange until 9 June 2005. Mr. Chan is a licensed person under the SFO for regulated activities in dealing in securities, dealing in futures contracts, leveraged foreign exchange trading and asset management and is a responsible officer of each of China Everbright Securities (HK) Limited, China Everbright Capital Limited and China Everbright Forex & Futures (HK) Limited, all being licensed corporations under the SFO. Save as disclosed above, Mr. Chan did not hold any other directorships in listed companies for the last three years.

**Mr. Kwok Chi Hung**, aged 46, an executive Director, joined the Company in December 2004. He is at present the financial advisor of Kai Yi HR Co., Ltd. Mr. Kwok has over 20 years of experience in financial management and accounting. Mr. Kwok did not hold any other directorships in listed companies for the last three years.

**Mr. Ng Tin Sang**, aged 58, an executive Director, joined the Company in May 2005. He is at present the chief executive officer of The Hong Kong Progressive Alliance. Mr. Ng graduated from the Department of Chinese of Guangzhou University. He was the director of the Research Center of Guangzhou P.R. China, division chief of Xinhua News Agency, Hong Kong Branch (now known as Liaison Office of The Central People's Government in the Hong Kong S.A.R.). He had held senior positions with Swank International Manufacturing Co., Ltd. (a company listed in Hong Kong) and Gang Ao International (Holdings) Company Limited. Mr. Ng has a wealth of experience in strategy research, China relation, project planning, public relation, resources integration and co-ordination; and a wide exposure to society. Mr. Ng did not hold any other directorships in listed companies for the last three years.

*Non-executive Directors:*

**Mr. Wang Qing Yu**, aged 63, a non-executive Director and Chairman of the Company, joined the Company in December 2005. Mr. Wang graduated from Optical Equipment Faculty of Changchun University of Science and Technology, majoring in Precision Mechanics. He had previously taught optical precision mechanical technology and optical cold processing and conducted related scientific research. He was Schoolmaster of Changchun University of Science and Technology, professor and secretary of the Party Committee, Head President of China South Industries Group Corporation and Director of the General Office. He was awarded National Science Conference Group Award Grade A. Mr. Wang was recognised as a science expert by the State Council of the PRC, and is entitled to perpetual government allowances. Mr. Wang did not hold any other directorships in listed companies for the last three years.

**Mr. Ng Kwong Chue Paul**, aged 37, a non-executive Director, joined the Company as executive Director in April 2003 and changed to act as non-executive Director in May 2006. He has more than 12 years of experience in audit, taxation and corporate finance area. Mr. Ng had served in PricewaterhouseCoopers before he founded wireless technology pioneers REALVision Technology Limited. He is also one of the founders of the Company. Currently, Mr. Ng is the director of Naputa Investment Inc, a private equity fund. He is also the company secretary and chief investment officer of Macro-Link International Holdings Limited, a company listed on the main board of the Stock Exchange. He holds a Bachelor Degree in Commerce from the University of Melbourne. He is a member of CPA Australia, Hong Kong Institute of Certified Public Accountants, Hong Kong Securities Institute and a certified management consultant with Australia Institute of Management. Mr. Ng did not hold any other directorships in listed companies for the last three years. As at the Latest Practicable Date, Mr. Ng was interested in 1,200,000 Options.

*Independent non-executive Directors:*

**Mr. David Wang Xin**, aged 45, an independent non-executive Director and is a chairman of the audit committee of the Company, joined the Company in October 2002. He is the founder and the president of Sun & Sun group of companies, a Singapore-based investment and consultancy group. Mr. Wang graduated with a Bachelor's degree in Mechanical Engineering in 1982 and a Master's degree in Business Administration in 1985. Mr. Wang did not hold any other directorships in listed companies for the last three years. As at the Latest Practicable Date, Mr. Wang was interested in 480,000 Options.

**Mr. Zang Hong Liang**, aged 39, an independent non-executive Director and is a member of the audit committee of the Company. He joined the Company in September 2004. He is at present a lawyer of Jingtian & Gongcheng, Attorneys at Law. He graduated from the Faculty of Law of Xiamen University in 1991 and Postgraduate Institute of China University of Political and Law Science in 1994. He holds a Bachelor degree in International Economic Law and a Master degree in Commercial Law. Mr. Zang's area of practice includes laws on commercial litigation, arbitration, investment and anti-dumping. Mr. Zang did not hold any other directorships in listed companies for the last three years.

**Mr. Lee Wing Hang**, aged 39, an independent non-executive Director and a member of the audit committee of the Company, joined the Company in December 2006. He holds a bachelor degree in accountancy from Australia. He has over 15 years of experience in corporate finance, accounting, auditing and taxation sectors. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Lee did not hold any other directorships in listed companies for the last three years.



**12. GENERAL**

- (i) None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company, since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up.
- (ii) There is no contract or arrangement entered into by the Company subsisting as at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Company as a whole.
- (iii) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (excepted Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong for the period from the date of this circular up to and including 9 October 2007.

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the financial year ended 31 December 2004, 31 December 2005 and 31 December 2006;
- (iii) the letter of recommendation from Vinco containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Vinco" in this circular;
- (iv) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (v) the letter from Graham dated 17 September 2007 in respect of the pro forma statement of adjusted net tangible assets of the Company following completion of the Rights Issue, the text of which is set out in Appendix II to this circular;
- (vi) the written consents referred to in paragraph headed "Expert" in this appendix;
- (vii) all material contracts referred to in the paragraph headed "Material contracts" in this appendix;

- (viii) the undertaking given by Mr. Xiang in respect of his taking up of its entitlement under the Rights Issue;
- (ix) the undertaking given by Mr. Lin in respect of his giving up of its entitlement under the Rights Issue; and
- (x) the undertaking given by the Subscriber to exercise the Warrants on or before 21 September 2007.

## NOTICE OF EGM



### SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1217)**

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (“EGM”) of the shareholders of Sino Technology Investments Company Limited (the “**Company**”) will be held at Suites 2305–2307, 23rd Floor, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong on Tuesday, 9 October 2007 at 10:00 a.m. for the following purposes:

#### Ordinary Resolution

To consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

1. **“THAT:**
  - (a) the Rights Issue (as defined below) be and are hereby approved.

For the purpose of this resolution, “**Rights Issue**” means the proposed issue by way of rights of not less than not less than 3,000,120,000 rights shares and not more than 3,838,992,000 rights shares (the “**Rights Shares**”) at a subscription price of HK\$0.04 per Rights Shares to the shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the register of members of the Company on the date by reference to which entitlement under the Rights Issue will be determined (other than those shareholders (the “**Excluded Shareholders**”) with registered addresses outside Hong Kong whom the board of Directors, after making relevant enquiry, considers their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of 10 Rights Shares for every share of the Company then held and otherwise pursuant to and subject to the fulfillment or waiver of the conditions and terms set out in the underwriting agreement (the “**Underwriting Agreement**”) (a copy of which have been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) dated 16 August 2007 and made between, among others, Eternal Pearl Securities Limited (the “**Underwriter**”) and the Company;

## NOTICE OF EGM

- (b) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to the Rights Issue notwithstanding the same may be offered, allotted or, issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to Excluded Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and
  - (c) the Directors be and are hereby authorised to do all acts and things in connection with the allotment and issue of the Right Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company's rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as they may in their discretion consider to be appropriate and desirable in the best interests of the Company."
2. "THAT:
- (a) the authorised share capital of the Company be increased from HK\$20,000,000 divided into 2,000,000,000 shares of HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 shares of HK\$0.01 each by the creation of an additional 3,000,000,000 shares of HK\$0.01 each; and
  - (b) that the directors of the Company be and are hereby authorised to do all such acts, deeds and things and shall execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the increase in the authorised share capital of the Company."
3. "THAT subject to and conditional upon the granting by the Listing Committee of the Stock Exchange of, the listing of and permission to deal in, the Shares to be issued pursuant to the exercise of options granted under the refreshed scheme mandate limit (the "**Scheme Mandate Limited**") under the share option scheme adopted by written resolution of the Company on 18 July 2002 in the manner as set out in paragraph (a) of this resolution below,
- (a) the refreshment of the Scheme Mandate Limit of up to 10% of the Shares of the Company in issue as at the date of passing of this resolution be and is hereby approved; and
  - (b) the directors of the Company be and are hereby authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary or expedient to give effect to the foregoing arrangement."

## NOTICE OF EGM

### Special Resolutions

To consider and, if thought fit, pass with or without amendments, the following resolution as special resolution:

4. **“THAT** the articles of association (**“Articles”**) of the Company be and are hereby amended in the following manner:

**(a) Article 77**

By deleting the full stop at the end of Article 77(d) and replacing it with a semi-colon and inserting the word **“or”** after the semi-colon.

Then by inserting the following new Article 77(e):

**“(e)** if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.”

**(b) Article 79**

By deleting the words **“There shall be no requirement for the chairman to disclose the voting figures on a poll.”** in Article 79 and substituting therefor the sentence **“The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange.”**.

**(c) Article 98(3)**

By deleting the existing Article 98(3) in its entirety and substituting therefor the following new Article 98(3):

**“(3)** 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 as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to their number) and shall then be eligible for re-election at that meeting.”

## NOTICE OF EGM

**(d) Article 98(5)**

By deleting the existing Article 98(5) in its entirety and substituting therefor the following new Article 98(5):

“(5) Subject to any provision to the contrary in these Articles, the Members may, at any general meeting convened and held in accordance with these Articles, by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement).”

**(e) Article 99(1)**

By deleting the existing Article 99(1) in its entirety and substituting therefor the following new Article 99(1):

“99. (1) Notwithstanding any other provisions in the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.”

**(f) Article 172**

By inserting the words “together with the notice of the general meeting” immediately after the words “at least twenty-one (21) days before the date of the general meeting” in line 6 of Article 172.”

By Order of the Board  
**Sino Technology Investments Company Limited**  
**Xiang Xin**  
*Executive Director*

Hong Kong, 17 September 2007

*Registered office:*  
Century Yard, Cricket Square  
Hutchins Drive, P.O. Box 2681 GT  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

*Head office and principal place of  
business in Hong Kong:*  
Suites 2305-2307, 23/F  
Two Chinachem Exchange Square  
338 King's Road  
North Point  
Hong Kong

## NOTICE OF EGM

*Notes:*

- (a) The register of members of the Company will be closed from Friday, 5 October 2007 to Tuesday, 9 October 2007 (both days inclusive) during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the EGM, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Branch Share Registrar, Union Registrars Limited, at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong during the period up to Sunday, 30 September 2007 and at Room 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong effective on Monday, 1 October 2007 for registration not later than 4:00 p.m. on Thursday, 4 October 2007.
- (b) A form of proxy for use at the EGM is enclosed. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. 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.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's branch share Registrar, Union Registrars Limited, at Room 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding such meeting.