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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licenced securities dealer or other registered institutions 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, you should at once hand this circular with the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licenced securities dealer or registered institutions in securities or other agent through whom the sale or transfer was effected for transmission.



SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED

中國創新投資有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1217)

**CONNECTED TRANSACTION:
ISSUE OF CONVERTIBLE BONDS
AND UNLISTED WARRANTS**

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



South China Capital Limited

A letter from the board of Sino Technology Investments Company Limited is set out on pages 4 to 17 of this circular. A letter of advice from South China Capital Limited, the independent financial adviser, containing its opinion and advice to the Independent Board Committee (as defined herein) and the Independent Shareholders (as defined herein) is set out on pages 19 to 41 of this circular. A letter of advice from the Independent Board Committee is set out on page 18 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 Thursday, 27 December 2007 at 11:00 a.m. or any adjournment is set out on pages 47 and 49 of this circular. 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 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong 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.

11 December 2007

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	means any day (other than a Saturday or Sunday) on which licensed banks are open for general banking business in Hong Kong
“Company”	Sino Technology Investments Company Limited 中國創新投資有限公司, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the subscription of the Convertible Bonds pursuant to the terms and conditions of the Subscription Agreement
“Completion Date”	the fifth Business Day after the date on which all the conditions precedent are fulfilled or, as the case may be, waived by the Subscriber
“Convertible Bonds”	convertible bonds to be issued by the Company to the Subscriber in the aggregate principal amount of HK\$50,000,000 with a term of 5 years
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Conversion Shares”	1,000,000,000 Shares which will fall to be allotted and issued upon conversion of the Convertible Bonds at the conversion price of HK\$0.05 per Share (subject to adjustment)
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held for considering, among other matters, the approval for the entering into of the Subscription Agreement and the transaction(s) contemplated thereunder (including but not limited to the issue of the Convertible Bonds and the Warrants and the allotment and issue of the Conversion Shares and Warrants Shares)

DEFINITIONS

“Exercise Price”	the exercise price of HK\$0.20 per Warrant Share (subject to adjustment) at which holder(s) of the Warrants may subscribe for the Warrant Shares
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the independent board committee of the Board comprising all the independent non-executive Directors, namely Mr. David Wang Xin, Mr. Zang Hong Liang and Mr. Lee Wing Hang, established for the purpose of advising the Independent Shareholders in relation to the Subscription Agreement
“Independent Shareholders”	Shareholders other than the Subscriber, its ultimate beneficial owner and their respective associates
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Last Trading Day”	19 November 2007, being the last trading day prior to the release of the announcement of the Company dated 20 November 2007
“Latest Practicable Date”	7 December 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the fifth anniversary of the date of issue of the Convertible Bonds
“Mr. Xiang”	Mr. Xiang Xin, being an executive Director and a substantial Shareholder of the Company
“PRC”	the People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, the Macau Special Administration Region of the People’s Republic of China and Taiwan
“SFO”	Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary shares of HK\$0.01 each in the capital of the Company

DEFINITIONS

“South China Capital”	South China Capital Limited, being a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 to the SFO, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder
“Specific Mandate”	a specific mandate to be granted to the Directors in relation to the allotment and issue of the Conversion Shares and the Warrant Shares under the terms to be approved by the Independent Shareholders at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Harvest Rise Investments Limited, a private company wholly owned by Mr. Xiang and the subscriber of the Convertible Bonds and the holder of the Warrants
“Subscription Agreement”	a subscription agreement dated 19 November 2007 entered into between the Company and the Subscriber in respect of the subscription of the Convertible Bonds and issue of the Warrants
“Subscription”	the subscription of the Convertible Bonds by and issue of the Warrants to the Subscriber pursuant to the Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Warrant(s)”	the 800,000,000 unlisted warrant(s) of the Company in units of subscription rights of HK\$0.20 each entitling the holders thereof to subscribe in cash up to HK\$160 million in aggregate for the Warrant Shares for a period commencing from the Maturity Date and expiring on the fifth anniversary of the Maturity Date at an exercise price of HK\$0.20 per Share (subject to adjustment) proposed to be issued in registered form in accordance with the terms of the Subscription Agreement
“Warrant Share(s)”	the new Shares to be allotted and issued by the Company upon exercise by the Subscriber of the subscription rights attached to the Warrants
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED

中國創新投資有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1217)

Executive Directors:

Mr. Xiang Xin
Mr. Chan Cheong Yee
Mr. Wong Chak Keung

Non-executive Directors:

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

Independent non-executive Directors:

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

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

11 December 2007

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION:
ISSUE OF CONVERTIBLE BONDS
AND UNLISTED WARRANTS**

INTRODUCTION

On 20 November 2007, the Board announced that on 19 November 2007, the Company entered into the Subscription Agreement with the Subscriber, whereby the Company agreed to issue and the Subscriber agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$50,000,000 and in consideration of the Subscriber's agreeing to the Subscription, the Company has conditionally agreed to grant 800,000,000 Warrants to the Subscriber at Completion at nil monetary consideration, which entitle the Subscriber and the subsequent holders thereof to subscribe for up to 800,000,000 Shares at the Exercise Price of HK\$0.20 per Warrant Share.

LETTER FROM THE BOARD

The purpose of this circular is (i) to provide you with further information in relation to the Subscription Agreement; (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) to set out the advice from South China Capital to the Independent Board Committee and the Independent Shareholders; and (iv) to give you the notice of the EGM.

THE SUBSCRIPTION AGREEMENT

Date: 19 November 2007 (after the trading hours of the Stock Exchange)

Parties: (a) The Company as issuer
(b) The Subscriber as subscriber

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. The Subscriber, whose principal activity is investment holding, is a private company wholly owned by Mr. Xiang (an executive Director and a substantial Shareholder) and is, therefore, a connected person of the Company under the Listing Rules.

Subject to the conditions set out below, the Subscriber agreed to subscribe for the Convertible Bonds pursuant to the terms of the Subscription Agreement.

The major terms of the Convertible Bonds are as follows:

Principal amount: HK\$50,000,000

Maturity date: The Convertible Bonds are due and will mature on the fifth anniversary of the date of issue of the Convertible Bonds. The outstanding Convertible Bonds on the Maturity Date will be converted into the Conversion Shares to such extent that the Conversion Shares will not result in the holder(s) of the Conversion Shares or parties acting in concert with it, taken together, directly or indirectly, controlling or being interested in Shares of 30% or more in the Company and the remaining Convertible Bonds, if any, will be redeemed by the Company at par on the Maturity Date.

Interest rate: The Convertible Bonds do not bear any interest.

Redemption: At any time before the Maturity Date, the holder(s) of the Convertible Bonds may serve written request to convert the Convertible Bonds (subject to the restriction clause as stated under "Conversion rights" below). Upon receiving the written request of the holder(s) of the Convertible Bonds, the Company is required to redeem the Convertible Bonds at its outstanding principal amount. On the other hand, the Company has no right to redeem any of the Convertible Bonds before the Maturity Date.

LETTER FROM THE BOARD

Conversion rights: The holder(s) of the Convertible Bonds will have the right to convert the Convertible Bonds, in whole or in part (in an amount or integral multiple of HK\$1,000,000) into Shares at any time commencing on the Business Day after the date of issue of the Convertible Bonds but before the Maturity Date, to the extent that following such exercise, (i) a holder of the Convertible Bonds, together with the holder(s) of Warrants and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in Shares of 30% or more in the Company, being set with reference to the 30% voting right i.e. the threshold of Takeovers Code which will trigger general offer obligations; and/or (ii) the Company is not able to comply with the public float requirement under the Listing Rules.

Conversion price: The conversion price is HK\$0.05 per Conversion Share, subject to adjustment for, among other things, subdivision or consolidation of Shares, issue of Shares by way of capitalisation of profits or reserves, distribution in cash or specie to Shareholders or grant to Shareholders the rights to acquire for cash assets of the Company or any of its subsidiaries, or offer to Shareholders new Shares for subscription by way of rights, bonus issues or shall grant to holders of Shares any options, warrants or other rights to subscribe for or purchase any Shares. Such adjustments will be certified by an independent financial adviser or the auditors of the Company for the time being.

The conversion price represents (i) a discount of approximately 73.54% to the closing price of HK\$0.189 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (ii) a discount of approximately 77.06% to the closing price of HK\$0.218 per Share as quoted on the Stock Exchange on the Latest Trading Day; (iii) a discount of approximately 74.17% to the average of the closing prices of HK\$0.1936 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 19 November 2007; and (iv) a premium of approximately 3.95% over the adjusted net asset value of the Company of HK\$0.0481 per Share as at 31 October 2007 (as adjusted by the issue of 3,633,552,000 right Shares net of expenses and the issue of 117,623,114 Shares upon exercise of share options of the Company in November 2007).

LETTER FROM THE BOARD

Conversion Shares: The Subscriber and any of its successors of the holders of the Convertible Bonds shall not transfer or dispose of the Conversion Shares within a period of six months commencing from the date of allotment and issue of the Conversion Shares, and thereafter the Conversion Shares are freely transferable subject to the payment of stamp duty in Hong Kong. Assuming full conversion of the Convertible Bonds, the Company will issue 1,000,000,000 Conversion Shares, representing (a) approximately 24.17% of the Company's total issued share capital as at the Latest Practicable Date; and (b) approximately 19.46% of the Company's issued share capital as enlarged by the issue of the Conversion Shares. The Conversion Shares will rank pari passu in all respects with the existing Shares in issue at the date of allotment and issue of such Conversion Shares.

Transferability: The Subscriber shall not transfer or dispose of the Convertible Bonds during a period of six months commencing from the issue date of the Convertible Bonds and the Convertible Bonds are freely transferable thereafter subject to the payment of stamp duty in Hong Kong. The Company will notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bonds by any connected persons of the Company.

Voting right: Holder(s) of the Convertible Bonds (or any part thereof) will not be entitled to attend or vote at any Shareholders' and/or warrant holders' meetings of the Company by reason only of it being a holder of the Convertible Bonds (or any part thereof).

Listing and trading: No application will be made for the listing of and permission to deal in the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made for the listing of, and permission to deal in, the Conversion Shares.

Ranking: The Convertible Bonds will rank pari passu with all other present and future unsecured and un-subordinated obligations of the Company.

The Conversion Shares will be issued under the Specific Mandate.

LETTER FROM THE BOARD

Issue of unlisted Warrants

A total of 800,000,000 Warrants will be issued under the Subscription Agreement. Upon exercise of the subscription rights attached to the Warrants, a total of 800,000,000 Warrant Shares will be issued under the Specific Mandate. In consideration of the Subscriber's agreeing to subscribe for the Convertible Bonds, the Company will issue the unlisted Warrants to the Subscriber at nil monetary consideration at Completion.

For the conditions precedent for the issue of the Warrants, please refer to sub-section headed "Conditions precedent of the Subscription Agreement" below.

Exercise Price

HK\$0.20 per Warrant Share, subject to adjustments for, among other things, subdivision or consolidation or reclassification of Shares, issue of Shares by way of capitalisation of profit or reserves, distribution in cash or specie to the Shareholders or grant to Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries, or offer to Shareholders new Shares for subscription by way of rights, or shall grant to Shareholders any options, warrants or other rights to subscribe for or purchase any Shares, or issue for cash any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares, or issue for cash any Shares at a price which is less than 90% of the market price or the repurchase of any Shares or securities convertible into Shares or any rights to acquire Shares by the Company.

The Exercise Price of HK\$0.20 represents:

- (i) a premium of approximately 5.82% over the closing price of HK\$0.189 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 8.26% to the closing price of HK\$0.218 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 3.09% over the average of the closing prices of HK\$0.194 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 315.80% over the adjusted net asset value per Share of HK\$0.0481 as at 31 October 2007 (based on the latest published unaudited net assets of the Group published on the Stock Exchange's website as adjusted by the issue of 3,633,552,000 right Shares, net of expenses, and the issue of 117,623,114 Shares upon exercise of share options of the Company in November 2007).

LETTER FROM THE BOARD

The Exercise Price is determined after arm's length negotiations between the Company and the Subscriber with reference to the trading prices of the Shares prevailing at the date of the Subscription Agreement. Given that the Exercise Price approximates the average price of the Shares for the last five consecutive trading days up to and including the Last Trading Day and equals to approximately 3.16 times the adjusted net asset value per Share as at 31 October 2007 (as adjusted by the issue of 3,633,552,000 rights Shares, net of expenses, and the issue of 117,623,114 Shares upon exercise of share options of the Company in November 2007), the Directors consider that the Exercise Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole. As at the Latest Practicable Date, the 59,983,200 unlisted warrants, the granting of which was announced by the Company on 16 August 2007, have been fully exercised and the Company has no other equity securities in issue carrying subscription rights save for the outstanding share options of the Company pursuant to the Company's share option scheme. Given that the Warrants represent approximately 19.33% of the existing issued share capital of the Company, the issue of the Warrants is in compliance with Rule 15.02(1) of the Listing Rules.

Transferability

Subject to all applicable laws and regulations, the Warrants may be transferable to any person (save as the connected person of the Company) in integral multiples of 1,000,000 Warrants (or if at the time of transfer, the outstanding number of Warrants are less than 1,000,000, the whole but not part of the outstanding Warrants) subject to the payment of stamp duty in Hong Kong.

The holder(s) of the Warrants will have the right to exercise the subscription rights attaching to the Warrants, in whole or in part (in an amount or integral multiple of HK\$1,000,000) into Shares at any time commencing on the Business Day after the date of issuance of the Warrants but before the Maturity Date, to the extent that following such exercise, (i) a holder of the Warrants, together with a holder of the Convertible Bonds and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in Shares of 30% or more in the Company, being set with reference to the 30% voting right i.e. the threshold of Takeovers Code which will trigger general offer obligations and/or (ii) the Company is not able to comply with the public float requirement under the Listing Rules.

Information on the Warrants

The Warrants will be issued to the Subscriber upon completion of the Subscription in registered form and constituted by a deed poll. The Warrants will rank pari passu in all respects among themselves. Each Warrant carries the right to subscribe for one Warrant Share at the Exercise Price.

LETTER FROM THE BOARD

The subscription rights attaching to the Warrants is exercisable at any time during a period of 5 years commencing from the date of issue of the Warrants. The Warrant Shares, when fully paid and allotted, will rank pari passu in all respects with the then existing issued Shares. The Warrants will rank pari passu with all other present and future unsecured and un-subordinated obligations of the Company.

Upon full exercise of the subscription rights attaching to the Warrants, a total of 800,000,000 Warrant Shares, representing (i) approximately 19.33% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 16.20% of the issued share capital of the Company as enlarged by the allotment and issue of the Warrants Shares from the full exercise of the subscription rights attaching to the Warrants, will be issued.

Voting rights for the holder(s) of the Warrants

The holder(s) of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of them being holders of the Warrants. The holder(s) of the Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.

Conditions precedent of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon:

- (a) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company and the Subscriber have no reasonable objection) listing of, and permission to deal in, the Conversion Shares and the Warrant Shares;
- (b) no event having occurred or occurring which would constitute an event of default or a potential event of default (please refer to the paragraph headed "Events of default" below) had the Convertible Bonds and the Warrants been issued; and
- (c) the Shareholders (other than those required to abstain from voting pursuant to the Listing Rules) passing at the EGM the resolution(s) approving the issue of the Convertible Bonds and the Warrants and the allotment and issue of the Conversion Shares falling to be issued upon exercise of the conversion rights attached to the Convertible Bonds and the Warrant Shares falling to be issued upon exercise of the rights attached to the Warrants.

The Company and the Subscriber undertake to each other that they will exercise (to the extent they are able to exercise) their respective best endeavours to procure that the said conditions are fulfilled as early as practicable and in any event not later than 31 January 2008 or such later date as the parties may agree in writing.

LETTER FROM THE BOARD

In the event that the said conditions are not fulfilled on or before 31 January 2008 or such later date as the parties may agree in writing, the Subscription Agreement shall lapse and become null and void, and the parties shall be released from all their respective obligations thereunder.

Events of default

Holder(s) of the Convertible Bonds may demand for early repayment of the Convertible Bonds held by them upon the occurrence of any one (or a combination of) events of default, including, but not limited to:

- (i) a default is made by the Company in the performance or observance of any covenant, condition or provision contained in the Convertible Bonds and on its part to be performed or observed and such default continues for the period of 14 days following the service by holder of the Convertible Bonds on the Company of notice specifying brief details of such default and requiring such default to be remedied; or
- (ii) the Company or any of its principal subsidiaries becomes insolvent or is unable to pay its debts as they mature or applies for or consents to the appointment of any administrator, liquidator or receiver of the whole or any material part of its undertaking, property, assets or revenues or enters into a general assignment or compromise with or for the benefit of its creditors; or
- (iii) a resolution is passed or an order of a court of competent jurisdiction is made for the winding-up or dissolution of the Company, or the Company disposes of all or substantially all of its assets, otherwise, in any case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an ordinary resolution of the holders of the Convertible Bonds; or
- (iv) suspension of Shares on the Stock Exchange for a period of 90 consecutive trading days or listing of the Shares on the Stock Exchange are being revoked or withdrawn.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Directors (including the independent non-executive Directors) consider that the Subscription provides a good opportunity for the Group to raise funds to strengthen its capital base and improve its financial position to provide flexibility for the Group's future development and expansion. Given that the Company is an investment company under Chapter 21 of the Listing Rules, its investment size on any single investment project shall not be more than 20% of the net asset value of the Company at the time when such investment is made. As stated in the prospectus of the Company relating to the issue of 3,633,552,000 rights shares dated 11 October 2007, the Company intends to invest, as a

LETTER FROM THE BOARD

financial and strategic investor, in the state-owned enterprises engaged in national defense and military industries in the PRC (particularly those engaged in commercialisation and development of technologies used in military for commercial and civil applications) at the early stage of their share restructuring.

Although the cash position of the Company has increased significantly as a result of the rights issue in October 2007 and the exercise of unlisted warrants which, in aggregate, raised approximately HK\$161 million, the Directors consider that the current financial position including cash balance is still relatively not strong enough given the 20% investment size restriction imposed on companies listed on the Stock Exchange pursuant to Chapter 21 of the Listing Rules such as the Company and the new corporate strategy of the Company to invest in the national defense and military industries in the PRC, the potential investment projects in which are generally relatively large in scale. Given the above, together with the progress in identifying potential investment projects such as the Unmanned Aircrafts Project (as defined below) after the Company's announcement of the said issue of warrants and the rights issue, the Directors consider that further fund raising is necessary for it to implement its new corporate strategy.

The Directors have considered alternative financing means including, but not limited to, placing of new Shares to further improve its financial position. However, the Company was not able to solicit genuine interests from potential placing agents at a placing price acceptable to the Company. The Directors have also considered other fund raising means such as another rights issue or open offer. Since both rights issue and open offer will generally involve a commission of not less than 2% of the underwriting amount and there will be time-consuming negotiation process with the potential underwriter(s), not to mention the possibility that an underwriter may never be secured or the desired underwritten amount may not be agreed by the underwriter(s), if so identified. The Directors consider that it would be practically difficult to conduct another rights issue or open offer in the near future soon after the completion of the rights issue in October 2007. Accordingly, the Directors consider that the issue of the Convertible Bonds, together with the terms of the Convertible Bonds (such as non-interest bearing with mandatory conversion at maturity and a lock-up period of six months after conversion), is an appropriate means to serve the purpose of raising funds for the Company while minimising the likelihood of redeeming the Convertible Bonds at par which will result in cash outflow of the Company. In consideration of the Subscriber agreeing to subscribe for the Convertible Bonds with nil interest payment, the Company will issue the Warrants at nil monetary consideration. The Exercise Price per Warrant Share of HK\$0.20 represents a premium of approximately 3.09% over the average of the five-day closing prices of the Shares of approximately HK\$0.194 prior to and including the date of signing of the Subscription Agreement. Given the above, together with the fact that the Exercise Price is at a premium of approximately 315.8% over the adjusted net asset value per Share of HK\$0.0481 per Share as at 31 October 2007 (calculation of which is detailed below), the Directors consider the issue of Warrants is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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In addition, as the Company is an investment company listed on the Stock Exchange pursuant to Chapter 21 of the Listing Rules, the value of which is benchmarked to its net asset value reported to the Shareholders on a monthly basis. As at 31 October 2007, the net asset value per Share was approximately HK\$0.135, which, after adjusting for the net proceeds from the rights issue in October 2007 and the exercise of the share options in November 2007, amounted to approximately HK\$0.0481 per Share. The conversion price of the Convertible Bonds of HK\$0.05 per Share was determined with reference to the adjusted net asset value of the Company as at 31 October 2007. Since cash and bank balances represented over 80% of the adjusted net asset value of the Company as at 31 October 2007, the Directors consider that it is appropriate to determine the conversion price of the Convertible Bonds based on the net asset value of the Company. Given that the conversion price of the Convertible Bonds is at a slight premium over the adjusted net asset value of approximately HK\$0.0481 per Share as at 31 October 2007, the net asset value per Share is expected to be enhanced after full conversion of the Convertible Bonds. Assuming the full exercise of the subscription rights attaching to the Warrants, the net proceeds of the Company will be increased by approximately HK\$160 million and the net asset value per Share will be further increased by approximately 51% per Share.

By using the proceeds of the Convertible Bonds and the proceeds from the exercise of subscription rights attaching to the Warrant Shares to invest in the national defense and military industries, the Directors expect the return of investment from the potential investment projects to outweigh the economic dilution immediately upon the conversion of the Convertible Bonds and the full exercise of the subscription rights attaching to the Warrants. Based on the above, the Directors (including the independent non-executive Directors) consider that the entering into of the Subscription Agreement is fair and reasonable and is in the interests of the Company and the Shareholders as a whole, notwithstanding the Warrants are issued at nil consideration and the conversion price of the Convertible Bonds is substantially below the price of the Shares on the Last Trading Day.

On 5 November 2007, the Company entered into a non-binding agreement-in-principle to invest in 北京黑峰航空科技有限公司 (Beijing Heifeng Aviation Science and Technology Co., Ltd.) (“Beijing Heifeng”), which is principally engaged in the research, development, manufacturing and sale of unmanned aircrafts in the PRC (the “Unmanned Aircrafts Project”). As advised by Beijing Heifeng, there has been positive development regarding the Unmanned Aircrafts Project following the signing of the agreement-in-principle and Beijing Heifeng is in the process of discussing with its PRC legal advisers as to the establishment of an appropriate structure in preparation for the Company’s potential investment. Beijing Heifeng is further considering to extend its co-operation with the Company to the research, development, manufacturing and sale of co-axial helicopters in the PRC. The Directors are in the final stage of negotiations with Beijing Heifeng on the investment, which includes, but not limited to, further details regarding the structure, terms, legality and return of the potential investment. Given such positive negotiations between the Company and Beijing Heifeng, the Directors expect to invest between HK\$40 million to HK\$50 million for the potential investment projects with Beijing Heifeng, the exact amount of which will depend on the then net asset value of the Company and the asset value of the corresponding investment project. Accordingly, the Directors consider

LETTER FROM THE BOARD

the Subscription, upon full conversion of the Convertible Bonds into Conversion Shares and the full exercise of the subscription rights attaching to the Warrants, will enlarge the capital base of the Company to facilitate the Company's potential investment in such investment projects.

The aggregate net proceeds of the Subscription and full exercise of subscription rights attaching to the Warrants, after deduction of relevant expenses, are estimated to be approximately HK\$49 million and HK\$160 million, respectively. The Company intends to apply such amount to strengthen the capital base of the Group in order to seize any investment opportunities identified such as the Unmanned Aircrafts Project and potential investment opportunities to be identified by the Company. Based on the aggregate net proceeds of approximately HK\$209 million as a result of the Subscription and the allotment and issue of Warrant Shares, the Directors intend to invest in 3 to 4 investment projects (including the Unmanned Aircrafts Project) each with an expected investment amount of approximately HK\$40 to HK\$50 million. Any remaining balance will be utilised as the Group's general working capital. As at the Latest Practicable Date, no suitable investment opportunities have been identified by the Directors so far save for the Unmanned Aircrafts Project.

LISTING OF THE CONVERSION SHARES AND THE WARRANT SHARES

The Convertible Bonds and the Warrants will not be listed on the Stock Exchange or any other stock exchanges, and applications will only be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Conversion Shares and the Warrant Shares which may fall to be allotted and issued upon the conversion of the Convertible Bonds (in part or in whole) and the exercise of the subscription rights attaching to the Warrants.

FUND RAISING ACTIVITIES OF THE COMPANY

Save as the fund raising exercise as set out below, the Company does not have any fund raising exercises during the 12-month period prior to the Latest Practicable Date:

Announcement date	Description	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
16 August 2007	Rights issue of 3,633,552,000 rights Shares and issue of 59,983,200 unlisted warrants	About HK\$141 million from the rights issue and about HK\$20 million from the issue and exercise of unlisted warrants	To invest in the national defense and military industries in the PRC by identifying such enterprises and acquiring equity interest in such enterprises	The net proceeds have been retained for investment purpose (<i>Note 1</i>)

Note 1: As the Company has not identified any appropriate investment since the above fund raising activities save for the potential investment in the Unmanned Aircrafts Project, the net proceeds from the aforesaid rights issue and the issue and exercise of the unlisted warrants have been placed in interest-bearing bank accounts for future investment purpose.

LETTER FROM THE BOARD

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the conversion of the Convertible Bonds and the exercise of the Warrants in full; and (iii) immediately after the conversion of the Convertible Bonds and the exercise of the Warrants and assuming the 340,885,508 outstanding share options of the Company are fully exercised:

	As at the Latest Practicable Date		Immediately after the conversion of the Convertible Bonds and the exercise of the Warrants in full		Immediately after the conversion of the Convertible Bonds and the exercise of the Warrants and assuming the outstanding share options of the Company are fully exercised	
	Number of Share	%	Number of Share	%	Number of Share	%
Mr. Xiang	723,335,379	17.48	723,335,379	12.18	740,375,379	11.79
Subscriber (<i>Note 1</i>)	–	–	1,800,000,000	30.31	1,800,000,000	28.67
Subtotal	723,335,379	17.48	2,523,335,379	42.49	2,540,375,379	40.46
				<i>(Note 3)</i>		<i>(Note 3)</i>
Mr. Lu Kemin	660,383,891	15.96	660,383,891	11.12	660,383,891	10.52
Directors (<i>Note 2</i>)	32,600,000	0.79	32,600,000	0.55	99,541,966	1.58
Public Shareholders	2,721,804,158	65.77	2,721,804,158	45.84	2,978,707,700	47.44
	<u>4,138,123,428</u>	<u>100.00</u>	<u>5,938,123,428</u>	<u>100.00</u>	<u>6,279,008,936</u>	<u>100.00</u>

Note 1: The Subscriber is a private company wholly owned by Mr. Xiang.

Note 2: Excluding Mr. Xiang and his associates.

Note 3: For illustration purpose only since the Subscriber and/or the successors of the holder(s) of the Convertible Bonds and the Warrants, together with parties acting in concert with it, will not directly or indirectly, control or be interested in Shares of 30% or more in the Company pursuant to the terms of the Subscription Agreement.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprises Mr. David Wang Xin, Mr. Zang Hong Liang and Mr. Lee Wing Hang, being all independent non-executive Directors. It has been established to advise the Independent Shareholders on the Subscription Agreement and the transaction contemplated thereunder.

South China Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement.

LETTER FROM THE BOARD

The text of the letter from the Independent Board Committee is set out on page 18 of this circular and the text of the letter from South China Capital containing its advice is set out on pages 19 to 41 of this circular.

EGM

As the Subscriber is a private company wholly owned by Mr. Xiang (an executive Director and a substantial Shareholder), it is a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Subscription Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the approval by the Independent Shareholders by poll at the EGM. The Subscriber, its ultimate beneficial owners and their respective associates, who in aggregate are interested in 723,335,379 Shares, representing approximately 17.48% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in respect of the resolution approving the Subscription Agreement at the EGM. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, save as disclosed above, the Directors are not aware of any Shareholder with a material interest in the Subscription and is required to abstain from voting in respect of the resolution approving the Subscription Agreement and the transaction contemplated thereunder at the EGM.

The notice convening the EGM is set out on pages 49 to 51 of this circular. The EGM will be convened for the purpose of considering and, if thought fit, passing the ordinary resolution to approve the Subscription Agreement and the transaction contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding 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

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

LETTER FROM THE BOARD

- (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.

RECOMMENDATION

Your attention is drawn to the letter of advice from South China Capital set out on pages 19 to 41 of this circular which contains its advices to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement and the letter from the Independent Board Committee set out on page 18 of this circular which contains its recommendation to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder. The Independent Board Committee, having taken into account the advice of South China Capital regarding the terms of the Subscription Agreement, is of the opinion that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, although the Subscription is not in the ordinary and usual course of business of the Company, it is in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the Subscription Agreement is in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and the transaction contemplated thereunder.

ADDITIONAL INFORMATION

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

Yours faithfully,
for and on behalf of the Board
Wang Qing Yu
Chairman



SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED

中國創新投資有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1217)

11 December 2007

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION :
ISSUE OF CONVERTIBLE BONDS
AND UNLISTED WARRANTS**

We refer to the circular of the Company to the Shareholders dated 11 December 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 by the Board to advise the Independent Shareholders as to whether the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned. South China Capital has been appointed as the independent financial adviser to advise us in this respect.

Having taking into account the principal factors and reasons considered by, and the recommendation of, South China Capital as set out in its letter of advice on pages 19 to 41 of the Circular, we are of the opinion that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, although the Subscription is not in the ordinary and usual course of business of the Company, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and the transaction contemplated thereunder.

Independent Board Committee

Mr. David Wang Xin

Mr. Zang Hong Liang

Mr. Lee Wing Hang

Independent non-executive Directors

LETTER FROM SOUTH CHINA CAPITAL

Set out below is the text of a letter received from South China Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Subscription for the purpose of inclusion in this circular.



South China Capital Limited
28/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

11 December 2007

*To: The independent board committee and the independent shareholders
of Sino Technology Investments Company Limited*

Dear Sirs,

CONNECTED TRANSACTION: ISSUE OF CONVERTIBLE BONDS AND UNLISTED WARRANTS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular dated 11 December 2007 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 19 November 2007, the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for the Convertible Bonds in an aggregate principal amount of HK\$50 million. The Convertible Bonds do not bear any interest and will mature on the fifth anniversary of the date of its issue. The conversion price of the Convertible Bonds was set at HK\$0.05 per Conversion Share.

In consideration of the Subscriber's agreeing to subscribe for the Convertible Bonds, the Company has also conditionally agreed to grant 800 million Warrants to the Subscriber at nil monetary consideration upon Completion. The Warrants will entitle the Subscriber and the subsequent holders thereof to subscribe for up to 800 million Shares at the Exercise Price of HK\$0.20 per Warrant Share.

LETTER FROM SOUTH CHINA CAPITAL

The Subscriber is a private company which is wholly-owned by Mr. Xiang, being an executive Director and the substantial shareholder of the Company. The Subscriber is thus a connected person (as defined under the Listing Rules) of the Company and therefore the entering into of the Subscription Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Subscription Agreement is subject to the approval of the Independent Shareholders at the EGM by way of poll whereby the Subscriber and its associates shall be required to abstain from voting on the relevant resolution(s) in respect of the Subscription Agreement and the transactions contemplated therein.

An independent board committee comprising Mr. David Wang Xin, Mr. Zang Hong Liang and Mr. Lee Wing Hang (all being independent non-executive Directors) (the "Independent Board Committee") has been established to advise the Independent Shareholders on (i) whether the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscription is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the ordinary resolution(s) to approve the Subscription Agreement and the transactions contemplated therein at the EGM. We, South China Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

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

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

LETTER FROM SOUTH CHINA CAPITAL

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Subscription, we have taken into consideration the following principal factors and reasons:

1. The Subscription Agreement

On 19 November 2007, the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company conditionally agreed to issue and Subscriber conditionally agreed to subscribe for the Convertible Bonds in an aggregate principal amount of HK\$50 million. The Convertible Bonds do not bear any interest and will mature on the fifth anniversary of the date of its issue (the "Maturity Date"). The conversion price of the Convertible Bonds was set at HK\$0.05 per Conversion Share (the "Conversion Price").

In consideration of the Subscriber's agreeing to subscribe for the Convertible Bonds, the Company has also conditionally agreed to grant 800 million Warrants to the Subscriber at nil monetary consideration upon Completion. The Warrants will entitle the Subscriber and the subsequent holders thereof to subscribe for up to 800 million Shares at the Exercise Price of HK\$0.20 per Warrant Share. Major terms of the Convertible Bonds and the Warrants are set out in the Board Letter.

As also referred to in the Board Letter, completion of the Subscription Agreement is conditional upon, *inter alia*, the following conditions having been fulfilled on or before 31 January 2008:

- (a) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company and the Subscriber have no reasonable objection) listing of and permission to deal in the Conversion Shares and the Warrant Shares;
- (b) no event having occurred or occurring which would constitute an event of default or a potential event of default (please refer to the paragraph headed "Event of Default" in the Board Letter) had the Convertible Bonds and the Warrants been issued; and

LETTER FROM SOUTH CHINA CAPITAL

- (c) the Shareholders (other than those required to abstain from voting pursuant to the Listing Rules) passing at the EGM the resolution(s) approving the issue of the Convertible Bonds and the Warrants and the allotment and issue of the Conversion Shares falling to be issued on the exercise of the conversion rights attached to the Convertible Bonds and the Warrant Shares falling to be issued on the exercise of the rights attached to the Warrants.

The Company and the Subscriber undertake to each other that they will exercise (to the extent they are able to exercise) their respective best endeavours to procure that the said conditions are fulfilled as early as practicable and in any event not later than 31 January 2008 or such later date as the parties may agree in writing.

In the event that the aforementioned conditions are not fulfilled on or before 31 January 2008 or such later date as the parties may agree in writing, the Subscription Agreement shall lapse and become null and void, and the parties shall be released from all their respective obligations thereunder.

2. Background of the Subscription

Business and financial information on the Company

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 investment in listed and unlisted companies mainly in Hong Kong and the PRC.

Tabularised below is a summary of the audited financial results of the Company as extracted from the annual report of the Company for the year ended 31 December 2006 (the “2006 Annual Report”) and the unaudited financial results of the Company as extracted from the interim report of the Company for the six months ended 30 June 2007 (the “2007 Interim Report”):

	For the year ended 31 December 2006 (audited) HK\$	For the year ended 31 December 2005 (audited) HK\$	Year on year change %	For the six months ended 30 June 2007 (unaudited) HK\$
Income Statement				
Turnover	428,041	7,474,554	(94.27)	407,462
Net loss attributable to the equity holders of the Company	(1,187,183)	(9,511,663)	(87.52)	(364,251)

LETTER FROM SOUTH CHINA CAPITAL

	As at 31 December 2006 (audited) HK\$	As at 31 December 2005 (audited) HK\$	Year on year change %	As at 30 June 2007 (unaudited) HK\$
Balance Sheet				
Net asset value ("NAV")	29,127,977	27,021,452	7.80	28,763,726
Cash and cash equivalents	15,718,102	13,132,156	19.69	15,251,122
Gearing ratio (Total borrowings/ Shareholder's equity)	Nil	Nil	-	Nil

As depicted by the above table, the Company recorded an audited total turnover of approximately HK\$0.43 million for the year ended 31 December 2006, representing a sharp decline of approximately 94.27% as compared to the prior year. We noted from the 2006 Annual Report that there was a significant gain on the Company's financial assets for the year ended 31 December 2005. The Directors confirmed that the gain from the financial assets of the Company declined significantly for the financial year 2006, and therefore the turnover of the Company had dropped comparatively in 2006. As for the six months ended 30 June 2007, according to the 2007 Interim Report, the total turnover of the Company had increased by approximately 73.59% as compared to the corresponding period in 2006. As advised by the Directors, the Company achieved such increase mainly from the rise in interest income and the Company's gains on financial assets.

From the 2006 Annual Report, we further noted that the Company had been making persistent losses since it was being listed on the Stock Exchange in 2002. As the Company is an investment company under Chapter 21 of the Listing Rules, its profitability is heavily depended on its investments decision. The Directors confirmed that due to the continuous improvement in the general economies in Hong Kong and the PRC, the Company will continue to explore new investment opportunities in Hong Kong and the PRC to further diversify its business for achieving a turnaround in its loss making position in the future. In this respect, it should also be noted that under Chapter 21 of the Listing Rules, the investment size on any single investment project of the Company shall not be more than 20% of its NAV at the time when such investment is made.

Regarding the assets and liabilities position of the Company, the audited NAV of the Company had jumped by approximately 7.80% from 31 December 2005 to 31 December 2006. As at 31 December 2006, the Company's audited NAV was approximately HK\$29.13 million. In addition, the Company's cash and cash equivalents has remained relatively stable in 2007. We have further enquired into the Directors and the Directors confirmed that the Company

LETTER FROM SOUTH CHINA CAPITAL

had total cash and cash equivalents of approximately HK\$177.4 million as at 26 November 2007. The Directors also confirmed that the Company had no outstanding borrowings as at the Latest Practicable Date.

The Company is a company under Chapter 21 of the Listing Rules and is treated differently from other listed companies on the Stock Exchange under the Listing Rules. We noted that companies under Chapter 21 of the Listing Rules should publish monthly announcement regarding their each month-end NAV for investors to form a clearer picture on their valuation. According to the 2007 Interim Report, the Company held investments in two unlisted companies namely, Jinan LuGu (HK) Technology Development Limited and SNG Hong Kong Limited, and one unlisted convertible loan note issued by King Tiger Technology Company Limited in its investment portfolio, which amounted to total cost and book value of HK\$26,928,270 and HK\$13,500,225 respectively as at 30 June 2007. Details of the aforementioned investments were set out in the 2007 Interim Report. The Directors further confirmed the Company continued its investment portfolio as above as at the Latest Practicable Date and the total cost and book value of these investments remained the same as at 30 November 2007.

Reasons for the Subscription

From the Board Letter, we noted that the Directors considered that the Subscription will provide a good opportunity for the Company to raise funds to strengthen its capital base and to improve its financial position in order to provide flexibility for the Company's future development and expansion. We have further enquired into the Directors regarding the possible investment projects available to the Company and we noted from the prospectus of the Company dated 11 October 2007 that the Company intended to invest, as a financial and strategic investor, in state-owned enterprises which engage in national defense and military industries in the PRC at the early stage of their share restructuring. Furthermore, as also put forth in the announcement of the Company dated 22 October 2007, the Company had entered into a non-legally binding co-operation memorandum with CITIC Investment Holdings Limited, which is a wholly-owned subsidiary and the investment arm of the CITIC Group. The Directors were of the view that the establishment of such strategic alliance with the CITIC Group would help to eliminate the potential legal barriers to the Company's investment in the national defense and military industries in the PRC. In addition, the Directors also believed that with the strong resources and extensive network of the CITIC Group in the PRC, the Company will be able to broaden its various business opportunities in the PRC. Since the potential investment projects in the national defense and military industries in the PRC are generally large in scale while under Chapter 21 of the Listing Rules, any single investment project shall not be more than 20% of the NAV of the Company at the time when such investment is made, the investment stake of the Company in such national defense and military projects will be restricted in scale should the Company fails to further strengthen its capital base.

LETTER FROM SOUTH CHINA CAPITAL

Besides investing in the national defense and military industries in the PRC, the Company also announced on 5 November 2007 that it had signed a non-binding agreement-in-principle to invest in Beijing Heifeng Aviation Science and Technology Co., Ltd. (“Beijing Heifeng”), a company which is principally engaged in the research, development, manufacturing and the sale of unmanned aircrafts in the PRC. We noted from the Board Letter that the Directors are currently in the final stage of negotiations with Beijing Heifeng on the aforementioned investment, which includes, but not limited to, further details regarding the structure, terms, legality and return on the potential investment. The Directors expected that the Company will make an investment of RMB40 million to RMB50 million for the potential investment project with Beijing Heifeng (the “Unmanned Aircrafts Project”), the exact amount of which will depend on the then NAV of the Company and the asset value of the corresponding investment project.

On top of the identified investment projects as detailed above, the Directors also advised that the Company will invest in other suitable projects which may arise and require immediate funding at anytime.

Given that all the outstanding Convertible Bonds may be converted into the Conversion Shares on or before the Maturity Date and the Warrants Shares may be issued upon exercise of the subscription rights attaching to the Warrants (being subject to the CB Restriction and the Warrants Restriction as detailed under the sections headed “Terms of the Convertible Bonds” and “Terms of the Warrants” respectively in this letter), the Directors considered that the Subscription will enlarge the capital base of the Company and thereby enable the Company to acquire higher investment stakes in the abovementioned investment projects. Moreover, the Subscription can also provide an immediate cash inflow of approximately HK\$49 million to the Company (see elaboration below) without any interest costs. Having this being the case, we consider that the reasons for the Subscription to be justifiable.

According to the Board Letter, the aggregate net proceeds from the Subscription and the possible full exercise of subscription rights attaching to the Warrants, after deduction of the relevant expenses, are estimated to be of approximately HK\$49 million and HK\$160 million respectively. It is the intention of the Company to apply such amounts to seize any potential future investment opportunities as when they are identified and the remaining balance will be utilized as the Company’s general working capital. We have further enquired into the Directors and as confirmed by the Directors, the Company intends to invest in three to four investment projects (including the potential investment in the Unmanned Aircrafts Project) each with an expected investment amount of approximately HK\$40 million to HK\$50 million. As at the Latest Practicable Date, no suitable investment opportunities had been identified by the Directors, save and except for the Unmanned Aircrafts Project. Nevertheless, the Company may still have an immediate funding need in the event that suitable investment projects arise unexpectedly at anytime. In view

LETTER FROM SOUTH CHINA CAPITAL

of (i) the Company's planned investments in the national defense and military industries in the PRC as well as the potential investment in the Unmanned Aircraft Project, and the substantial amount of capital endowment which may be required by such large investment projects; (ii) the Company may have an immediate funding need as when suitable investment projects arise unexpectedly at anytime; and (iii) the Subscription being a fund raising opportunity to provide the Company with more flexibility in considering different methods of financing for its possible future investments, we consider that the Subscription, even though is not in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole.

Other financing alternatives available to the Company

As confirmed by the Directors, save and except for the rights issue of 3,633,552,000 Shares which was completed on 31 October 2007 (the "Rights Issue") and the issue of 59,983,200 unlisted warrants (the "Warrants Issue") by the Company in August 2007, the Company had not conducted any fund raising activities during the past 12 months. The Board Letter also stated that the 59,983,200 unlisted warrants have been fully exercised and the Company has placed the net proceeds of HK\$141 million and HK\$20 million from the Rights Issue and the Warrants Issue respectively in interest-bearing bank accounts for future investment purpose. The Directors confirmed that the aforementioned net proceeds have not been utilized. Furthermore, as mentioned under the paragraph headed "Business and financial information on the Company" in this letter, the Company had approximately HK\$177.4 million cash and cash equivalents (including the net proceeds from the Rights Issue and the Warrants Issue) as at 26 November 2007. Given that the Company intends to invest in three to four investment projects (including the potential investment in the Unmanned Aircrafts Project) each with an expected investment amount of approximately HK\$40 million to HK\$50 million, the Company may not have enough internal resources on hand to finance its possible investment opportunities. Having also taken into account the new corporate strategy of the Company to invest in the national defense and military industries in the PRC which would be relatively large in scale, the Directors consider that further fund raising is necessary for the Company to finance its possible investment opportunities and to implement its new corporate strategy.

Regarding the financing alternatives available to the Company, we were given to understand by the Directors that the Company will normally consider both debt financing and equity financing to fulfill its capital requirements. Nevertheless, due to (i) the loss making position of the Company in recent years (details of which are contained under the paragraph headed "Business and financial information on the Company" in this letter); and (ii) the lack of valuable assets for the Company to pledge against its bank borrowings, the Directors expected that it will be difficult for the Company to obtain borrowings/debts from banks or other financial institutions with favorable terms.

LETTER FROM SOUTH CHINA CAPITAL

Whereas for equity financing, common means of equity financing include rights issue and open offer. As mentioned in the previous paragraph, the Company conducted the Rights Issue in October 2007. The Rights Issue was issued at HK\$0.04 per rights Share and was fully underwritten by an independent underwriter on underwriting commission of approximately 1%. The Directors further advised that the Company was involved in conducting the Rights Issue starting from negotiations with the underwriter in early August 2007. The Rights Issue was subsequently completed on 31 October 2007 and the rights Shares were issued on 5 November 2007, which was approximately three months after the Rights Issue was first initiated.

We noted that the excess application portion of the Rights Issue was over-subscribed by approximately 17.3 times and accordingly, we are of the view that the existing Shareholders are highly interested in the Shares and thus rights issue may be a possible fund raising method available to the Company. We have therefore enquired into the Directors regarding the reasons for not conducting another rights issue and the Directors confirmed that from their experience in the Rights Issue, they consider that a rights issue is subject to lengthy negotiation process with all professional parties and standard force majeure clause in favour of the underwriters. In addition, the Directors were also of the view that carrying out two consecutive rights issue within a short time interval would have an adverse impact on the market reputation of the Company. Given (i) the aforementioned shortcomings of conducting another rights issue; and (ii) the fact that the Company is unable to obtain borrowings/debts from banks or other financial institutions with favourable terms, the Directors considered the Subscription to be a feasible, cost and time effective financing method which is currently available to the Company to satisfy its possible immediate funding need. The Directors also further confirmed that the existing arrangement of the Subscription was arrived at after arm's length negotiations between the Company and the Subscriber and it was a commercial decision which was acceptable to both the Company and the Subscriber.

In light of that (i) the Conversion Price is substantially higher than the issue price of the rights Shares; (ii) a rights issue will normally require an underwriting commission while the Convertible Bonds are interest free; (iii) a rights issue usually requires lengthier completion process which may fail to satisfy the Company's possible immediate funding need; and (iv) the arrangement of the Subscription was a commercial decision which was acceptable to both the Company and the Subscriber and the terms of the Convertible Bonds which as detailed in the below section were fairly and reasonably set, we concur with the Directors that the issue of the Convertible Bonds is the most feasible, cost and time effective fund raising alternative currently available to the Company as compared to other methods including rights issue.

3. Terms of the Convertible Bonds

Pursuant to the Subscription Agreement, the Convertible Bonds has an aggregate principal amount of HK\$50 million. In addition, The Convertible Bonds do not bear any interest and will mature on the Maturity Date. The Conversion Price was set at HK\$0.05 per Conversion Share.

Pursuant to also the Subscription Agreement, the holder(s) of the Convertible Bonds will have the right to convert the Convertible Bonds, in whole or in part (in an amount or integral multiple of HK\$1,000,000) into the Conversion Shares at any time commencing on the Business Day after the date of issue of the Convertible Bonds but before the Maturity Date, to the extent that following such exercise, (i) a holder of the Convertible Bonds, together with a holder(s) of the Warrants and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in the Shares which represent 30% or more of the equity interest in the Company, being set with reference to the 30% voting right (i.e. the threshold of the Takeovers Code which will trigger general offer obligations); and/or (ii) the Company is not able to comply with the public float requirement under the Listing Rules.

In addition, the outstanding Convertible Bonds on the Maturity Date will be converted into the Conversion Shares to such extent that the Conversion Shares will not result in the holder(s) of the Conversion Shares or parties acting in concert with it, taken together, directly or indirectly, controlling or being interested in the Shares which represent 30% or more of the equity interest in the Company; and the remaining Convertible Bonds, if any, will be redeemed by the Company at par on the Maturity Date (together with the conversion restriction as detailed in the above paragraph, the "CB Restriction").

As mentioned under the paragraph headed "Business and financial information on the Group" in this letter, since the Company is a company under Chapter 21 of the Listing Rules, it is treated differently from other listed companies on the Stock Exchange under the Listing Rules. We noted that companies under Chapter 21 of the Listing Rules should publish monthly announcement regarding their each month-end NAV for investors to form a clearer picture on their valuation. For this reason, we are of the view that NAV should be the key proxy for determining the fairness and reasonableness of the Conversion Price although the current investment portfolio of the Company as outlined under the paragraph headed "Business and financial information on the Group" in this letter is primarily consist of private equities. Nonetheless, we also set out below some informative analyses for illustrative purpose.

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The Conversion Price

The Conversion Price of HK\$0.05 per Conversion Share represents:

	Share price	Premium/(Discount)
	<i>HK\$</i>	of the Conversion
		Price over/to the
		closing price of
		the Shares
		%
As at the Latest Practicable Date	0.189	(73.54)
As at the Last Trading Day	0.218	(77.06)
Five-day average up to and including the Last Trading Day	0.194	(74.17)
Ten-day average up to and including the Last Trading Day	0.211	(76.27)
The adjusted net asset value per Share as at 31 October 2007 (the "Adjusted NAV per Share") (<i>Note</i>)	0.0481	3.95

Note: Upon review of the calculations provided by the Company, we noted that the net asset value per Share as at 31 October 2007 was adjusted by (i) the issue of 3,633,552,000 Shares under the Rights Issue net of expenses; and (ii) the issue of 117,623,114 Shares upon exercise of the share options of the Company in November 2007.

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The historical price of the Shares

The following table sets out the highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 20 November 2006 up to and including the Last Trading Day (the “Review Period”):

Month	Highest	Lowest	Average daily
	closing price	closing price	closing price
	HK\$	HK\$	HK\$
2006			
November	0.046	0.043	0.045
December	0.045	0.041	0.042
2007			
January	0.044	0.040	0.043
February	0.064	0.042	0.054
March	0.054	0.046	0.053
April	0.070	0.053	0.061
May	0.072	0.059	0.063
June	0.070	0.062	0.066
July	0.101	0.064	0.080
August	0.225	0.065	0.099
September	0.287	0.164	0.226
October	0.580	0.162	0.414
November (up to and including the Last Trading Day)	0.360	0.181	0.237

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

The above table illustrates that the average daily closing prices of the Shares during the Review Period ranged from HK\$0.042 to HK\$0.414 per Share (as adjusted due to the Rights Issue in the proportion of 10 rights Shares for every Share held on 9 October 2007). During the Review Period, the Conversion Price was generally at discount to the monthly average daily closing prices of the Shares with the exceptions of November 2006, December 2006 and January 2007. The closing prices of the Shares demonstrated a general increasing trend during the Review Period and rose considerably from October 2007 onwards. We have enquired into the Directors and the Directors confirmed that they are not aware of any particular occurrences which might have led to such considerable rise in the Share price save and except for the announcements of the possible investment opportunities as outlined under the paragraph headed “Reasons for the Subscription” in this letter which were released by the Company in October 2007 and November 2007. The Directors are of the view that the Share price mounted as a result of the favorable market perception on the prospects of those possible investment opportunities being identified by

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the Company even though they may not be materialised. In addition, the Directors also consider that the recent active sentiment of the investors in the stock market might have also contributed to the said sudden mount in the Share price from October 2007 onwards.

The historical trading volume of the Shares

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

Month	Average daily trading volume (the "Average Volume") Shares	% of the Average Volume to total number of issued Shares held by the public as at the Last Trading Day (Note 1) %	% of the Average Volume to total number of issued Shares as at the Last Trading Day (Note 2) %
2006			
November	1,092,444	0.04	0.03
December	432,421	0.02	0.01
2007			
January	376,000	0.01	0.01
February	5,753,332	0.21	0.14
March	553,445	0.02	0.01
April	2,717,333	0.10	0.07
May	958,286	0.04	0.02
June	4,156,000	0.15	0.10
July	11,520,333	0.43	0.28
August	13,566,453	0.50	0.33
September	12,653,853	0.47	0.31
October	22,265,700	0.82	0.54
November (up to and including the Last Trading Day)	222,897,167	8.24	5.42

Notes:

1. Based on 2,705,251,044 Shares in public hands as at the Last Trading Day.
2. Based on 4,114,530,314 Shares in issue as at the Last Trading Day.

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

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We noted from the above table that trading in the Shares was relatively thin during the Review Period, with ranges of approximately 0.01% to 8.24% and approximately 0.01% to 5.42% of the total number of issued Shares held by the public as at the Last Trading Day and the total number of issued Shares as at the Last Trading Day respectively. Save and except for November 2007, trading in the Shares represented below 1% of the total number of issued Shares held by the public as at the Last Trading Day and the total number of issued Shares as at the Last Trading Day. We have enquired into the Directors regarding the exceptional high liquidity of the Shares in November 2007 and the Directors confirmed that the increase in trading volume of the Shares might again be partly due to the announcements of the Company in October 2007 and November 2007 regarding the possible investment opportunities being identified by the Company and the recent active sentiment of the investors in the stock market, and partly resulting from the increase in the number of the Shares in public hands after the Rights Issue.

Comparison with other issues of convertible bonds/notes

To further assess and compare the fairness and reasonableness of the terms of the Convertible Bonds, we have searched for connected transactions that involved the issue of convertible bond/note by companies listed in Hong Kong from 1 August 2007 to the date of the Subscription Agreement. To the best of our knowledge and as far as we are aware of, we found 14 companies which met these criteria (the “CB Comparables”). The table below summarises our relevant findings:

Company	Stock Code	Date of announcement	Term year	Annual interest rate %	Premium/(Discount) of the conversion price over/to the closing price of the shares as at the last trading day prior to the release of the announcement %
G-Prop (Holdings) Limited	286	7 August 2007	3	0	(92.17)
Riche Multi-Media Holdings Limited	764	8 August 2007	10	0	29.87
Everbest Energy Holdings Limited	578	27 August 2007	3	0	(24.66)
Henry Group Holdings Limited	859	14 September 2007	5	1.68	0
China Motion Telecom International Limited	989	19 September 2007	5	1.5	(54.49)

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Company	Stock Code	Date of announcement	Term <i>year</i>	Annual interest rate %	Premium/(Discount) of conversion price over/to the closing price of the shares as at the last trading day prior to the release of the announcement %
China Medical And Bio Science Limited	8120	2 October 2007	3	0	60.98
China Golden Development Holdings Limited	162	5 October 2007	5	2.75	(31.10)
Termbay Industries International (Holdings) Limited	93	15 October 2007	3	0	(21.05)
Shenzhen International Holdings Limited	152	16 October 2007	3	0	1.69
China Power New Energy Development Company Limited	735	23 October 2007	5	0	0.00
Zhong Hua International Holdings Limited	1064	26 October 2007	2	0	0.00
Shun Cheong Holdings Limited	650	31 October 2007	5	1	(68.91)
Bestway International Holdings Limited	718	7 November 2007	6	0	(19.64)
Sino Union Petroleum & Chemical International Limited	346	9 November 2007	3	0	7.46
Average				0.50	(15.14)
Maximum				2.75	60.98
Minimum				0	(92.17)
The Company	1217	20 November 2007		0	(77.06)

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

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We are of the view that the issue of convertible bonds/notes to independent third parties should be excluded since the Convertible Bonds are issued to a connected person of the Company and the objective of our analysis is to provide the Independent Shareholders with the general market practice on the issue of convertible bonds/notes to connected parties. Moreover, we consider that it is not appropriate to exclude the outliers in order to form a fair and representative basis for comparison purpose. We are of the opinion that the CB Convertibles are fair and representative samples even though Shareholders should also note that the businesses, operations and prospects of the Company are not the same as the CB Comparables as set out in the above table.

(a) The Conversion Price

As advised by the Directors, the Conversion Price was determined with reference to the Adjusted NAV per Share of approximately HK\$0.0481 as at 31 October 2007, which represents a premium of approximately 3.95%. Since the NAV is the main indicator for the valuation of companies under Chapter 21 of Listing Rules, we concur with the Directors that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

In addition, we noted from the above table that the conversion prices of the CB Comparables ranged from a discount of approximately 92.17% to a premium of approximately 60.98% to/over the respective closing prices of their shares as at the last trading day prior to the release of the relevant issue of convertible bond/note announcements. Accordingly, the Conversion Price, which represents a discount of 77.06% to the closing price of the Shares as at the Last Trading Day, falls within the said market range and is in line with that of similar convertible bonds/notes in the market.

(b) Annual interest rate

As present by the above table, the CB Comparables carried an annual interest rate of 0% to 2.75% with an average of 0.50%. The Convertible Bonds, which do not bear any interest, falls within the said market range and is at the lower bound of the CB Comparables. Due to this reason, we are of the view that the interest rate of the Convertible Bonds is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

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Conclusion

From the paragraph headed “The Conversion Price” in this letter, we noted that the Conversion Price is at rather deep discounts to the closing prices of the Shares as at the Last Trading Day and the different specified periods under review. Nonetheless, in our opinion, the closing price of the Shares shall not be an alternative factor besides the NAV of the Company in the evaluation of the fairness and reasonableness of the Conversion Price because (i) the Company incurred consecutive losses in recent years and therefore the Share price may not accurately reflect the fair value of the Company; (ii) the sudden mount of the Share price from October 2007 onwards and the exceptional increase in trading volume of the Shares in November 2007 was partly due to the favorable market perception on the prospects of the possible investment opportunities being identified by the Company, and in the event that they are not materialized, the Share price may fluctuate vigorously; and (iii) another reason for the said sudden mount in the Share price as well as the exceptional increase in trading volume of the Shares being recent active sentiment of the investors in the stock market may also revert unpredictably at anytime.

Based on all the above, we concur with the Directors that the terms of the Convertible Bonds (including the Conversion Price) are fair and reasonable so far as the Independent Shareholders are concerned.

4. Terms of the Warrants

As referred to in the Board Letter, in consideration of the Subscriber’s agreeing to subscribe for the Convertible Bonds, the Company has also conditionally agreed to grant 800 million Warrants to the Subscriber at nil monetary consideration upon Completion. The Warrants will entitle the Subscriber and the subsequent holders thereof to subscribe for up to 800 million Shares at the Exercise Price of HK\$0.20 per Warrant Share.

The holder(s) of the Warrants will have the right to exercise the subscription rights attaching to the Warrants, in whole or in part (in an amount or integral multiple of HK\$1,000,000) into the Shares at any time commencing on the Business Day after the date of issue of the Warrants but before the Maturity Date, to the extent that following such exercise, (i) a holder(s) of the Warrants, together with a holder of the Convertible Bonds and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in the Shares which represent 30% or more of the equity interest in the Company, being set with reference to the 30% voting right (i.e. the threshold of the Takeovers Code which will trigger general offer obligations); and/or (ii) the Company is not able to comply with the public float requirement under the Listing Rules (the “Warrants Restriction”).

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The Exercise Price

The Exercise Price of HK\$0.20 per Warrant Share represents:

	Share price (HK\$)	Premium/(Discount) of the Exercise Price over/to the closing price of the Shares %
As at the Latest Practicable Date	0.189	5.82
As at the Last Trading Day	0.218	(8.26)
Five-day average up to and including the Last Trading Day	0.194	3.31
Ten-day average up to and including the Last Trading Day	0.211	(5.08)
The Adjusted NAV per Share as at 31 October 2007 (<i>Note</i>)	0.0481	315.80

Note: Upon review of the calculations provided by the Company, we noted that the net asset value per Share as at 31 October 2007 was adjusted by (i) the issue of 3,633,552,000 Shares under the Rights Issue net of expenses; and (ii) the issue of 117,623,114 Shares upon exercise of the share options of the Company in November 2007.

As referred to the table under the paragraph headed “The historical price of the Shares” in this letter, the Exercise Price was at premium over the monthly average daily closing prices of the Shares during the Review Period with the exceptions of August 2007, September 2007, October 2007 and November 2007. From the above table, we also noted that the Exercise Price represents a premium of approximately 315.80% over the Adjusted NAV per Share as at 31 October 2007. As confirmed by the Directors, the Exercise Price was determined after arm’s length negotiations between the Company and the Subscriber with reference to the recent trading prices of the Shares. In addition, based on the fact that the Exercise Price approximated the average closing price of the Shares for the last five trading days up to and including the Last Trading Day and was equaled to approximately 3.16 times the Adjusted NAV per Share as at 31 October 2007, the Directors are of the view that the Exercise Price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

Comparison with other issues of warrants

To further assess and compare the fairness and reasonableness of the terms of the Warrants, we have searched for transactions that involved the issue of warrants to connected person(s) by companies listed in Hong Kong

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from 1 August 2007 to the date of the Subscription Agreement. To the best of our knowledge and as far as we are aware of, we found three companies which met these criteria (the “Warrant Comparables”). The table below summarizes our relevant findings:

Company	Stock Code	Date of announcement	Term <i>year</i>	Premium/ (Discount) of the exercise price over/to the closing price of the shares as at the last trading day prior to the release of the announcement %
Concepta Investments Limited	1140	14 September 2007	1	(14.29)
China Medical and Bio Science Limited	8120	2 October 2007	3	107.32
Coastal Greenland Limited	1124	1 November 2007	5	8.37
Average				33.80
Maximum				107.32
Minimum				(14.29)
The Company	1217	20 November 2007		(8.26)

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

We are of the view that the issue of warrants to independent third parties should be excluded since the Warrant is issued to a connected person of the Company and the objective of our analysis is to provide the Independent Shareholders with the general market practice on the issue of warrants to connected parties. Moreover, we consider that it is not appropriate to exclude the outliers in order to form a fair and representative basis for comparison purpose. We are of the opinion that the Warrant Comparables are fair and representative samples even though Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Warrant Comparables as set out in the above table.

The exercise prices of the Warrant Comparables ranged from a discount of approximately 14.29% to a premium of approximately 107.32% to/over the respective closing prices of their shares as at the last trading day prior to the release of the relevant issue of warrant announcements. Accordingly, the

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Exercise Price, which represents a discount of 8.26% to the closing price of the Shares as at the Last Trading Day, falls within the said market range and is in line with market practice. Besides that, we were given to understand by the Directors that the Exercise Price was determined with reference to primarily the average closing price of the Shares for the last five trading days up to and including the Last Trading Day and the Directors are not aware of any particular reason for the upsurge of the Share price as at the Last Trading Day. In view of that (i) the possible exercise of the Warrants would enlarge the Company's capital base and raise additional funds for the Company to seize the possible investment opportunities in the future; (ii) the Exercise Price was at premium over the monthly average daily closing prices of the Shares during the Review Period with the exceptions of the recent trading months during which the Share prices were partially affected by the unpredictable active sentiment of the investors in the stock market; (iii) the Exercise Price represents a significant premium over the Adjusted NAV per Share as at 31 October 2007; (iv) the Exercise Price falls within the market range of the Warrant Comparables and thus is in line with normal market practice; and (v) the Warrants serve to promote the attractiveness of the Convertible Bonds to the Subscriber, we concur with the Directors that the terms of the Warrants (including the Exercise Price) are fair and reasonable so far as the Independent Shareholders are concerned.

In addition, we have also reviewed the other terms of the Subscription Agreement (including the terms of the Convertible Bonds and the Warrants) and are not aware of any terms which are uncommon to normal market practice. Accordingly, we are of the view that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

5. Dilution of the shareholding interests of the existing public Shareholders

As at the Latest Practicable Date, 4,138,123,428 Shares were in issue. Upon the full conversion of the Convertible Bonds into the Conversion Shares, a total of 1,000 million Conversion Shares will be issued, representing (i) approximately 24.17% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 19.46% of the issued share capital of the Company as enlarged by the Conversion Shares. Whereas upon the full exercise of the Warrants, a total 800 million Warrant Shares will be issued, representing (i) approximately 19.33% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 16.20% of the issued share capital of the Company as enlarged by the Warrant Shares; and (iii) approximately 13.47% of the issued share capital of the Company as enlarged by the Conversion Shares and the Warrant Shares.

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The table below shows the shareholding structure of the Company (i) as at Latest Practicable Date; (ii) immediately after the conversion of the Convertible Bonds in full; and (iii) immediately after the conversion of the Convertible Bonds and the exercise of the Warrants in full:

Shareholder	As at the Latest Practicable Date		Immediately after the conversion of the Convertible Bonds in full (Note 3)		Immediately after the conversion of the Convertible Bonds and the exercise of the Warrants in full (Note 3)	
	Number of Shares	% of issued Shares	Number of Shares	% of issued Shares	Number of Shares	% of issued Shares
	Mr. Xiang	723,335,379	17.48	723,335,379	14.08	723,335,379
The Subscriber (Note 1)	0	0.00	1,000,000,000	19.46	1,800,000,000	30.31
Subtotal	723,335,379	17.48	1,723,335,379	33.54	2,523,335,379	42.49
Mr. Lu Kemin	660,383,891	15.96	660,383,891	12.85	660,383,891	11.12
The Directors (Note 2)	32,600,000	0.79	32,600,000	0.63	32,600,000	0.55
Public Shareholders	<u>2,721,804,158</u>	<u>65.77</u>	<u>2,721,804,158</u>	<u>52.98</u>	<u>2,721,804,158</u>	<u>45.84</u>
Total	<u><u>4,138,123,428</u></u>	<u><u>100.00</u></u>	<u><u>5,138,123,428</u></u>	<u><u>100.00</u></u>	<u><u>5,938,123,428</u></u>	<u><u>100.00</u></u>

Notes:

- (1) The Subscriber is a private company which is wholly-owned by Mr. Xiang.
- (2) Excluding Mr. Xiang and his associates.
- (3) For illustration purpose only since the Subscriber and/or the successive holder(s) of the Convertible Bonds and the Warrants, together with the respective parties acting in concert with them, will not directly or indirectly control or be interested in the Shares which represent 30% or more of the equity interest in the Company pursuant to the Subscription Agreement.

As demonstrated above, the shareholding interests of the existing public Shareholders will be reduced from approximately 65.77% to (i) approximately 52.98% immediately after the full conversion of the Convertible Bonds; and (ii) approximately 45.84% immediately after the conversion of the Convertible Bonds and the exercise of the Warrants in full.

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Although the shareholding interests of the existing public Shareholders will be diluted in the above listed extents as a result of the full conversion of the Convertible Bonds and the full exercise of the Warrants respectively, as balanced by that (i) the Subscription is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Subscription Agreement were fairly and reasonably set; (iii) the Company's capital base will be enlarged upon the conversion of the Convertible Bonds and the exercise of the Warrants and thus can enable the Company to acquire higher investment stakes in the possible investment opportunities in the future given the Listing Rules' restriction that the investment size on any single investment project of the Company shall not be more than 20% of its NAV at the time when such investment is made; (iv) the shareholding interests of all existing public Shareholders will be diluted in proportion to their respective shareholdings in the Company; and (v) the public float of the Company's shares should not be lower than 30% given the CB Restriction and the Warrant Restriction, we consider the aforementioned dilution effects to be acceptable.

6. Possible financial effects to the Company

Effect on NAV

As extracted from the 2006 Annual Report, the Company had an audited NAV of approximately HK\$29.13 million as at 31 December 2006. As confirmed by the Directors, the Convertible Bonds would be divided into a liability component and an equity component in the balance sheet of the Company. Therefore, the NAV of the Company would be increased by roughly the amount attributable to the equity component of the Convertible Bonds.

Effect on gearing and working capital

With reference to the 2006 Annual Report, the Company's gearing position (as calculated by total borrowings divided by Shareholders' equity) was nil as at 31 December 2006. As just mentioned, part of the Convertible Bonds will be accounted for as a liability for the Company and hence the total borrowings of the Company would be increased accordingly. Therefore, the Company's gearing position would be worsened due to the Subscription.

Moreover, the working capital of the Company will be increased by approximately HK\$49 million, being the principal amount of the Convertible Bonds net of expenses.

Relating to the Warrants

As confirmed by the Directors, the Warrants would not have any impact on the balance sheet of the Company at the time when they are issued. However, the Company's net assets and gearing position would be improved upon the possible exercise of the Warrants in the future. In addition, the

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working capital of the Company will also be increased by approximately HK\$160 million (before expenses) upon the possible exercise of the Warrants in full.

Conclusion

Based on the aforementioned financial effects of the Subscription to the Company, namely (i) the improving NAV of the Company; (ii) the availability of extra working capital to the Company; and (iii) the inevitable worsening of the gearing position of the Company immediately upon Completion which would be mitigated should the Convertible Bonds be converted into the Conversion Shares and the Warrants be exercised and the Warrant Shares be issued, we are of the view that the Subscription is in the interests of the Company and the Shareholders as a whole.

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

RECOMMENDATION

Having taken into consideration the above factors and reasons, we are of the opinion that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, although the Subscription is not in the ordinary and usual course of business of the Company, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Subscription Agreement and the transactions as contemplated therein and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
South China Capital Limited
Graham Lam
Director

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. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests in the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which is taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

(i) Ordinary Shares

Name of Director	Capacity	Number of issued Shares interested	Approximate percentage of interests
Mr. Xiang	Interest through a controlled corporation	723,335,379 (L)	17.48%
		1,800,000,000 (L)	43.50%
Chan Cheong Yee	Beneficial	17,040,000 (L)	0.412%
Wong Chak Keung	Beneficial	8,520,000 (L)	0.206%
Lee Wing Hang	Beneficial	7,040,000 (L)	0.170%

Notes:

- The letter "L" denotes the Directors' long position (i.e. interests) in the Shares.
- The 723,335,379 Shares are held by Harvest Rise ("Harvest Rise"), a private company wholly and beneficially owned by Mr. Xiang. Mr. Xiang is the sole director of Harvest Rise.
- The 1,800,000,000 Shares are to be held by Harvest Rise, a private company wholly and beneficially owned by Mr. Xiang. Mr. Xiang is the sole director of Harvest Rise. As at the Latest Practicable Date, Harvest Rise is deemed interested in the 1,800,000,000 Shares upon execution of the Subscription Agreement and upon conversion of the Convertible Bonds and exercise in full the subscription rights attached to the Warrants.

(ii) 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)	18 October 2007	18 October 2007 to 15 October 2010	Beneficial owner	0.0500	17,040,000	0.412%
Wong Chak Keung (Note 1)	18 October 2007	18 October 2007 to 15 October 2010	Beneficial owner	0.0500	8,520,000	0.206%
Wang Qing Yu (Note 2)	18 October 2007	18 October 2007 to 15 October 2010	Beneficial owner	0.0500	8,520,000	0.206%
Ng Kwong Chue, Paul (Note 2)	29 January 2003	28 August 2003 to 27 August 2013	Beneficial owner	0.0244	10,244,262	0.248%
Ng Kwong Chue, Paul (Note 2)	18 October 2007	18 October 2007 to 15 October 2010	Beneficial owner	0.0500	8,520,000	0.206%
David Wang Xin (Note 3)	29 January 2003	28 August 2003 to 27 August 2013	Beneficial owner	0.0244	4,097,704	0.100%
David Wang Xin (Note 3)	18 October 2007	18 October 2007 to 15 October 2010	Beneficial owner	0.0500	17,040,000	0.412%
Lee Wing Hang (Note 3)	18 October 2007	18 October 2007 to 15 October 2010	Beneficial owner	0.0500	10,000,000	0.242%
Zang Hong Liang (Note 3)	18 October 2007	18 October 2007 to 15 October 2010	Beneficial owner	0.0500	17,040,000	0.412%

Notes:

- Executive Directors
- Non-executive Directors
- Independent non-executive Directors
- All the outstanding options were granted to each grantee at a consideration of HK\$1.00.
- Save for the 33,560,000 options in aggregate had been exercised by all the existing Directors, no relevant outstanding options have been exercised, cancelled or lapsed up to and including the Latest Practicable 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 for Securities Transactions by Directors of Listed Companies.

(b) Director's interest in assets and/or arrangement

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been since 31 December 2006, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to any members of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed herein, as at the Latest Practicable Date, there were no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

(c) Substantial shareholders and other persons' interests and short positions in shares of the Company

As at the Latest Practicable Date, so far as was known to any Directors or chief executives of the Company, the following persons (other than a Director or chief executives 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:

Interest in issued Shares

Name of Shareholder	Capacity	Number of issued Shares held	Approximate percentage of interests
Harvest Rise (Note 2)	Beneficial	723,335,379 (L) (Note 1)	17.48%
Kung Ching (Note 3)	Deemed	723,335,379 (L) (Note 1)	17.48%
Lu Kemin	Beneficial	660,383,891 (L) (Note 1)	15.96%

Notes:

1. The letter “L” denotes the Shareholders’ long position (i.e. interests) in the Shares.
2. Harvest Rise is a private company wholly and beneficially owned by Mr. Xiang. Mr. Xiang is the sole director of Harvest Rise.
3. Ms. Kung Ching, the spouse of Mr. Xiang, are deemed to have interest in 723,335,379 Shares held by Harvest Rise as mentioned in note 2 above.

Interested in Shares under equity derivatives

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of interests
Harvest Rise (Note 2)	Deemed beneficial interest	1,800,000,000 (L) (Note 1)	43.50%
Kung Ching (Note 3)	Deemed	1,800,000,000 (L) (Note 1)	43.50%

Notes:

1. The letter “L” denotes the Shareholders’ long position (i.e. interests) in the Shares.
2. The 1,800,000,000 Shares is deemed interested by Harvest Rise upon execution of the Subscription Agreement and upon conversion of the Convertible Bonds (i.e. 1,000,000,000 Shares) and exercise in full the subscription rights attached to the Warrants (i.e. 800,000,000 Shares). Harvest Rise is a private company wholly and beneficially owned by Mr. Xiang. Mr. Xiang is the sole director of Harvest Rise.
3. Ms. Kung Ching, the spouse of Mr. Xiang, are deemed to have interested in 1,800,000,000 Shares held by Harvest Rise as mentioned in note 2 above.

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.

3. COMPETING INTERESTS

None of the Directors of the Company or any of their respective associates had any interest in any business which causes or may cause any significant competition with the business of the Group or any significant conflicts with the interest of the Group.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Group since 31 December 2006, being the date to which the latest audited financial statements of the Group were made up of.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinion or advice which are contained in this circular:

Name	Qualification
South China Capital Limited	a deemed licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 to the SFO

South China Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its names in the form and context in which they appear.

As at the Latest Practicable Date, South China Capital did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, South China Capital did not have any direct or indirect interests in any assets which had been since 31 December 2006, the date of which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, any members of the Group.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at Suites 2305–2307, 23rd Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, from the date of this circular and up to and including 27 December 2007:

- (a) the letter from the Independent Board Committee, the text of which is set out on page 18 of this circular;
- (b) the letter of advice from South China Capital, the text of which is set out on pages 19 to 41 of this circular;
- (c) the letter of consent from South China Capital; and
- (d) the Subscription Agreement.

NOTICE OF EGM



SINO TECHNOLOGY INVESTMENTS COMPANY LIMITED 中國創新投資有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1217)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting 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 Thursday, 27 December 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (i) the form and substance of the Subscription Agreement (as defined in the Company’s circular (“**the Circular**”) dated 11 December 2007 of which this notice of extraordinary general meeting forms part) relating to the Subscription (as defined in the Circular) be and are hereby approved, confirmed and ratified;
- (ii) the creation and issue by the Company of the zero coupon convertible bonds (“**Convertible Bonds**”) in an aggregate principal amount of HK\$50,000,000 to Harvest Rise Investment Limited pursuant to the terms and conditions of the Subscription Agreement be and it is hereby approved;
- (iii) the creation and issue by the Company of the 800,000,000 warrants (“**Warrants**”) entitling holders thereof to subscribe in cash up to HK\$160 million in aggregate for shares (“**Shares**”) of the Company of HK\$0.01 each in its share capital at an exercise price of HK\$0.20 per Share (subject to adjustment) pursuant to the terms and conditions of the Subscription Agreement be and it is hereby approved;
- (iv) the directors (“**Directors**”) of the Company be and they are hereby generally and specifically authorised (“**Specific Mandate**”) to allot and issue:–
 - (a) such number of new Shares (“**Conversion Shares**”) fall to be allotted and issued at the conversion price of HK\$0.05 per Conversion Share (subject to adjustment) upon the exercise of the conversion right attaching to the Convertible Bonds approved to be issued under (ii) above on and subject to the terms and conditions of the Subscription Agreement and the terms and conditions of the Convertible Bonds contained in the instrument constituting the Convertible Bonds; and

NOTICE OF EGM

- (b) such number of new Shares (“**Warrant Shares**”) fall to be allotted and issued upon the exercise of the subscription rights attached to the Warrants approved to be issued under (iii) above on and subject to the terms and conditions of the Subscription Agreement and the terms and conditions of the Warrants contained in the instrument constituting the Warrants,

and **THAT** the Specific Mandate shall be in addition to, and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 25 May 2007 or such other general or specific mandate(s) which may from time to time be granted to the Directors prior to the passing of this Resolution,

- (v) all the transactions contemplated under the Subscription Agreement (together the “**Transactions**”) be and they are hereby approved and **THAT** the Directors be and they are hereby generally and unconditionally authorised to issue such corresponding amount of the Convertible Bonds, Conversion Shares, Warrants and Warrant Shares on and subject to the terms of the Subscription Agreement, to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in the opinion of the Directors, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the Transactions contemplated by, the Subscription Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Subscription Agreement as are, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

By order of the Board of
Sino Technology Investments Company Limited
Wang Qing Yu
Chairman

Hong Kong, 11 December 2007

*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

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

NOTICE OF EGM

Notes:

1. Any shareholder of the Company (the “**Shareholder(s)**”) entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy to attend and in the event of a poll, vote in his stead. A proxy need not be a Shareholder.
2. Where there are joint registered holders of any share in the issued share capital of the Company (the “**Share(s)**”), any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he/she/it were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company (“**Register of Members**”) in respect of such Share shall alone be entitled to vote in respect thereof.
3. In order to be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Company’s branch share registrar in Hong Kong, Union Registrars Limited, at Room 1901–02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting as the case may be.
4. Delivery of an instrument appointing a proxy shall not preclude a Shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.