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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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 licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance on the whole or any part of the contents of this circular.

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# **INTCERA**

## **Intcera High Tech Group Limited**

### **大陶精密科技集團有限公司\***

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

**(Stock Code: 8041)**

*Website: <http://www.intcera.com.hk>*

**SUBSCRIPTION FOR NEW SHARES,  
PLACINGS OF NEW SHARES,  
WHITWASH WAIVER APPLICATION,  
PROPOSED BONUS ISSUE ON THE BASIS OF  
ONE BONUS SHARE FOR EVERY TWENTY EXISTING SHARES  
HELD ON RECORD DATE,  
PROPOSED RIGHTS ISSUE ON  
THE BASIS OF ONE RIGHTS SHARE FOR  
EVERY EXISTING SHARE HELD ON RECORD DATE,  
POSSIBLE ISSUE OF REMUNERATION SHARES,  
PAST TRANSACTIONS REQUIRING APPROVAL,  
ADOPTION OF NEW SHARE OPTION SCHEME  
AND  
TERMINATION OF EXISTING SHARE OPTION SCHEME**

#### **Joint Financial Advisers**



**SOMERLEY LIMITED**



**統一證券(香港)有限公司**  
PRESIDENT SECURITIES (HONG KONG) LTD.

#### **Placing Agent**



**統一證券(香港)有限公司**  
PRESIDENT SECURITIES (HONG KONG) LTD.

#### **Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders**



**REXCAPITAL (Hong Kong) Limited**

**AsiaVest Partners**

**AsiaVest Partners Limited**

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A letter from the Board is set out on pages 14 to 70 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 71 to 72 of this circular. A letter from the Joint Independent Financial Advisers containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 73 to 101 of this circular.

A notice convening an extraordinary general meeting of the Company ("EGM") to be held at Flat 2, 2/F, 2 Pak Sha Road, Causeway Bay, Hong Kong on 18 March 2008, at 10:00 a.m. is set out on pages 210 to 215 of this Circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, 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 accompanying form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

29 February 2008

\* for identification purpose only

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## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

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## DEFINITIONS

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

“Acquisition Agreement”	has the meaning ascribed to it in subsection IV of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Advance”	the advance of RMB12 million made to Weiyi by the Group as escrow money pursuant to the Agency Agreement
“Agency Agreement”	has the meaning ascribed to it in subsection V of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Application Form(s)”	the application form(s) to be used by the Qualifying Shareholders in connection with the Rights Issue including the EAF and PAL
“associate(s)”	has the same meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Bond Supplemental Agreements”	has the meaning ascribed to it in subsection VI of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Bonus Issue”	the proposed issue of the Bonus Shares on the basis of one Bonus Share for every twenty existing Shares held on Record Date
“Bonus Shares”	the new Shares to be issued under the Bonus Issue
“Bright Castle”	Bright Castle Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially wholly-owned by Mr. Cheng
“Business Day”	means a day (excluding Sundays, public holidays and days on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m. on weekdays and 9:00 a.m. and 12:00 noon on Saturdays) on which licensed banks are open for general business in Hong Kong

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## DEFINITIONS

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“BI Overseas Shareholders”	holders of Shares whose addresses as shown on the register of members on the Record date are outside Hong Kong
“BI Qualifying Shareholders”	holders of Shares not being Excepted Shareholders who are entitled to the Bonus Issue
“CCASS”	The Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited
“Companies Ordinance”	Companies Ordinance (Chapter 32, Laws of Hong Kong)
“Company”	Intcera High Tech Group Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“Completion”	completion of the Subscription Agreement
“connected person(s)”	has the same meaning ascribed to it under the GEM Listing Rules
“Convertible Bonds”	the 2% convertible bonds issued by the Company on 31 October 2002 with aggregate principal amount of HK\$27.4 million carrying rights to convert in whole or in part the principal amount into Shares at the initial conversion price of HK\$0.17 per Share (subject to adjustments) from 1 November 2002 to the maturity date of 31 October 2003 which was subsequently extended to 31 December 2009
“Decision Letter”	the decision letter issued by the Listing Appeals Committee dated 14 November 2007 pursuant to which the Listing Appeals Committee has granted the conditional approval to allow the Company to proceed with its resumption proposal subject to prior compliance with the conditions as set out in the decision letter Announcement to the satisfaction of the Stock Exchange within three months from 14 November 2007
“Director(s)”	the director(s) of the Company
“EAF(s)”	form(s) of application for excess Rights Shares

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## DEFINITIONS

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“EGM”	extraordinary general meeting of the Company to be convened and held at 10:00 a.m. on 18 March 2008 for Shareholders to consider and, if thought fit, to approve the Bonus Issue, the Share Subscription, the Whitewash Waiver, the Placings, the possible issue of Remuneration Shares, the Rights Issue, the Past Transactions Requiring Approval, and the respective transactions as contemplated thereunder, termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme
“Excluded Shareholder(s)”	those Overseas Shareholders(s) whom the Directors, after making relevant enquiry as required under the GEM Listing Rules, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Excepted Shareholders”	those BI Overseas Shareholders whom the Directors, after making enquiries pursuant to Rule 17.41(1) of the GEM Listing Rules, consider it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to extend the Bonus Issue to them
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“Existing Share Option Scheme”	the existing share option scheme of the Company adopted by the Company on 29 April 2002
“First Announcement”	the announcement of the Company dated 24 September 2007 regarding the Subscription, the First Placing and the Whitewash Waiver
“First Loan Agreement”	has the meaning ascribed to it in subsection VII of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“First Placing”	the placing of the First Placing Shares pursuant to the terms of the First Placing Agreement

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## DEFINITIONS

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“First Placing Agreement”	a conditional placing agreement dated 7 September 2007 entered into between the Company and the Placing Agent in relation to the First Placing (the long stop date of which was extended from 31 March 2008 to 30 April 2008 pursuant to the extension letter entered into by the parties on 28 February 2008), or in the event where such placing agreement is terminated for any reason whatsoever, the placing agreement to be entered into between the Company and such other placing agent as approved by the Subscriber in writing
“First Placing Shares”	an aggregate of 458,000,000 Shares to be placed pursuant to the First Placing Agreement
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board comprising the non-executive Director, Mr. Lin Nan, and the independent non-executive Directors, Mr. Liu Zheng Hao, Mr. Lam Williamson and Ms. Mak Wai Fong
“Independent Shareholder(s)”	Shareholder(s) who are not interested in or involved in the Subscription Agreement, the First Placing, the Second Placing, the Whitewash Waiver, the Bonus Issue and/or the rectification of Past Transactions Requiring Approval, being Shareholders other than the Subscriber, Bright Castle, Mr. Cheng, Mr. Tung, Somerley, Mr. Sabine and their respective concert parties and associates
“Independent Third Party(ies)”	(a) third party(ies) independent of the Company and its connected persons

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## DEFINITIONS

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“Injected Machinery”	has the meaning ascribed to it in subsection I of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Intcera (HK)”	Intcera High Tech (HK) Limited, a wholly-owned subsidiary of the Company
“Intcera (Hunan)” or the “JV Company”	has the meaning ascribed to it in subsection I of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Intcera (Hunan) Disposal Agreements”	has the meaning ascribed to it in subsection I of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Invested Entity”	an entity in which the Group holds any equity interest
“Joint Fast”	Joint Fast Enterprises Limited. The Directors confirm that Joint Fast and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules)
“Joint Independent Financial Advisers”	REXCAPITAL (Hong Kong) Limited, a licensed corporation under the SFO to carry on type 6 regulated activity (advising on corporate finance), and AsiaVest Partners Limited, a licensed corporation under the SFO to carry on types 4, 6 and 9 regulated activities (advising on securities, advising on corporate finance and asset management)
“JV Agreement”	has the meaning ascribed to it in subsection I of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Last Trading Day”	3 October 2003, being the last trading day of the Shares immediately before the suspension of trading in the Shares with effect from 9:30 a.m. on 6 October 2003
“Latest Practicable Date”	27 February 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information set out in this circular



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## DEFINITIONS

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“Long Stop Date”	30 April 2008 (or such other date as may be agreed between (i) the Company and the Subscriber for the Subscription Agreement; and (ii) between the Company and the Placing Agent for the Placing Agreements)
“Management Agreement”	has the meaning ascribed to it in subsection II of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Mr. Cheng”	Mr. Cheng Qing Bo, the Chairman of the Company and an executive Director
“Mr. Lau”	Mr. Lau Chi Yuen, Joseph, the beneficial owner of the Subscriber
“Mr. Sabine”	Mr. Martin Nevil Sabine, the controlling shareholder and the Chairman of Somerley
“Mr. Tung”	Mr. Tung Tai Yung, a Director
“New Share Option Scheme”	the new share option scheme proposed to be adopted by the Company at the EGM, the principal terms of which are set out in Appendix III to this circular
“Offer Date”	the date on which an offer of the grant of Option is made to a Participant or, in relation to a proposed grant of Option referred to in paragraph (G), paragraph (E)(ii) or paragraph (F) of Appendix III, the date of the meeting of the Board proposing the offer of the grant of Option notwithstanding that the offer of the grant of Option and the acceptance thereof may be conditional upon subsequent approval by the Shareholders in general meeting, in either event such date must be a business day
“Options”	option(s) to be granted to Participant(s) to subscribe for Share(s) under the Existing Share Option Scheme or, after its termination, under the New Share Option Scheme
“Overseas Shareholder(s)”	Shareholder(s) with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
“PAL(s)”	provisional allotment letter(s) for Rights Shares

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## DEFINITIONS

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“Participant”	(i) any employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity, including any executive director of any member of the Group or any Invested Entity; or (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity; or (iii) any supplier of goods or services to any member of the Group or any Invested Entity; or (iv) any customer of any member of the Group or any Invested Entity; or (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; or (vi) any consultant or adviser of any member of the Group or any Invested Entity; or (vii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity, and, for the purposes of the New Share Option Scheme, Options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of Participants
“Past Transactions Requiring Approval”	the transactions which require the approval of the Independent Shareholders at the EGM as indicated under the section headed “Past Transactions Requiring Approval” of this circular
“Placing Agent” or “President Securities”	President Securities (Hong Kong) Limited, a licensed corporation under the SFO to engage in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities, one of the joint financial advisers to the Company
“Placing Agreements”	First Placing Agreement and Second Placing Agreement
“Placing Shares”	First Placing Shares and Second Placing Shares
“Placings”	First Placing and Second Placing
“PRC”	the People’s Republic of China and for the purpose of this circular only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Previous GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM in effect prior to 31 March 2004

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## DEFINITIONS

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“Prospectus”	the prospectus to be issued by the Company containing details of the Rights Issue
“Prospectus Documents”	the Prospectus and the Application Forms
“Qualifying Shareholder(s)”	Shareholder(s) whose names appear on the register of members of the Company on the Record Date, other than the Excluded Shareholders
“Real Move”	Real Move Profits Limited. The Directors confirm that Real Move and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules)
“Record Date”	18 March 2008 or such other date set by the Company, being the date by reference to which entitlements under the Rights Issue and Bonus Issue will be determined
“Registrar”	Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong, being the Company’s Hong Kong branch share registrar and transfer office
“Relevant Period”	the period beginning six months prior to the date of the First Announcement and ended on the Latest Practicable Date
“Remuneration Shares”	up to 223,845,635 new Shares which may be issued to settle part of the professional fees up to approximately HK\$2,238,456 charged by Somerley and President Securities pursuant to the engagement letter dated 6 September 2007 entered into between Somerley, President Securities and the Company
“Rights Issue”	the proposed rights issue of a maximum of 723,087,310 Rights Shares at HK\$0.01 each on the basis of one Rights Share for every existing Share held on the Record Date
“Rights Share(s)”	723,087,310 new Shares to be offered to the Shareholders for subscription on the terms and subject to the conditions set out in the Prospectus Documents
“RI Subscription Price”	HK\$0.01 per Rights Share

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## DEFINITIONS

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“RMB”	Renminbi, the lawful currency of the PRC
“Sales Arrangement”	has the meaning ascribed to it in subsection III of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Second Announcement”	the announcement of the Company dated 26 October 2007 regarding the Second Placing
“Second Loan Agreement”	has the meaning ascribed to it in subsection VII of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Second Placing”	the placing of the Second Placing Shares pursuant to the terms of the Second Placing Agreement
“Second Placing Agreement”	a conditional placing agreement dated 25 October 2007 entered into between the Company and the Placing Agent in relation to the Second Placing, the long stop date of which was extended from 31 March 2008 to 30 April 2008 pursuant to the extension letter entered into by the parties on 28 February 2008
“Second Placing Shares”	an aggregate of 1,000,000,000 Shares to be placed pursuant to the Second Placing Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Share Repurchases Code”	the Hong Kong Code on Share Repurchases
“Share Subscription”	the subscription of the Subscription Shares by the Subscriber upon and subject to the terms and conditions of the Subscription Agreement
“Shareholder(s)”	holder(s) of the Shares
“Shenzhen Intcera”	大陶精密科技(深圳)有限公司, a wholly owned subsidiary of the Company from March 2003 to November 2005

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## DEFINITIONS

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“Shenzhen Zhongji”	Shenzhen Zhongji Industry (Group) Co., Ltd (formerly known as Shenzhen China Technology Industry Development Company Limited), which was beneficially owned as to 36% by Mr. Cheng as at the time the JV Agreement was entered into
“Somerley”	Somerley Limited, a corporation licensed under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined in the SFO, one of the joint financial advisers to the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	JL Investments Capital Limited, a company incorporated in the British Virgin Islands with limited liability and is ultimately beneficially wholly owned by Mr. Lau
“Subscription Agreement”	the subscription agreement dated 7 September 2007 made between the Company and the Subscriber in relation to the Share Subscription, the long stop date of which was extended from 31 March 2008 to 30 April 2008 pursuant to the extension letter entered into by the parties on 28 February 2008
“Subscription Price”	HK\$0.01 per Subscription Share
“Subscription Shares”	an aggregate of 3,542,000,000 Shares to be issued and allotted to the Subscriber pursuant to the Subscription Agreement
“Subsequent Disposal”	has the meaning ascribed to it in subsection I of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“substantial shareholder(s)”	has the same meaning ascribed to it under the GEM Listing Rules
“Supplemental Agreements”	has the meaning ascribed to it in subsection II of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers

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## DEFINITIONS

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“Technology Rights Agreement”	has the meaning ascribed to it in subsection II of the section headed “Past Transactions Requiring Approval” in the letter from the Board in this circular
“Weiyi”	Shenzhen Weiyi Optical Communication Technology Limited, a company incorporated in the PRC with limited liability and ultimate wholly-owned by Mr. Cheng as at the Latest Practicable Date
“Whitewash Waiver”	a waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of the Subscriber to make a mandatory general offer for all the Shares other than those held by the Subscriber and parties acting in concert with it as a result of the completion of the Share Subscription
“%”	per cent.

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## EXPECTED TIMETABLE

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<b>Event</b>	<b>2008 Time/Date</b>
Despatch of the Company's circular with notice of the EGM .....	29 February
Latest time for lodging transfer of the Shares in order to be entitled to the Rights Issue and the Bonus Shares .....	4:30 p.m. on 12 March
Book close period to determine the entitlements to the Rights Issue and the Bonus Issue (both dates inclusive) .....	13 to 18 March
Latest time for lodging form of proxy for the purpose of the EGM (not less than 48 hours before the EGM) .....	10:00 a.m. on 16 March
Date of the EGM .....	10:00 a.m. on 18 March
Record date for the Rights Issue and the Bonus Issue .....	18 March
Publication of results of the EGM .....	18 March
Register of members re-opens .....	19 March
Despatch of the Prospectus Documents .....	2 April
Certificates for the Bonus Shares expected to be despatched .....	on or before 2 April
Resumption of trading in Shares .....	3 April
Commencement of dealing in Bonus Shares .....	3 April
First day of dealings in nil-paid Rights Shares .....	7 April
Latest time for splitting nil-paid Rights Shares .....	4:00 p.m. on 11 April
Last day of dealings in nil-paid Rights Shares .....	16 April
Latest time for acceptance of and payment for the Rights Shares and application for excess Rights Shares .....	4:00 p.m. on 21 April

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## EXPECTED TIMETABLE

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Announcement of the results of the Rights Issue to be published on the websites of the Stock Exchange .....	25 April
Refund cheques for wholly or partially unsuccessful excess applications to be posted on or before .....	25 April
Share certificates for the Rights Shares to be posted on or before .....	25 April
Dealing in Rights Shares commences .....	29 April

*Notes:*

1. The commencement of dealing in Bonus Shares on 3 April 2008 is based on the assumption that the completion of the Share Subscription and the Placings take place on 2 April 2008.
2. The date of resumption of trading in Shares is subject to the fulfillment of the conditions of resumption of trading.
3. Dealings in the fully-paid Rights Shares will commence as soon as the relevant Shareholders receive the share certificate for the Rights Shares.
4. All times in this circular refer to Hong Kong time.



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LETTER FROM THE BOARD

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**INTCERA**  
**Intcera High Tech Group Limited**  
**大陶精密科技集團有限公司\***

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

**(Stock Code: 8041)**

*Executive Directors:*

CHENG Qing Bo (*Chairman*)  
TUNG Tai Yung  
LI Fang

*Non-executive Director:*

LIN Nan

*Independent Non-executive Directors:*

LIU Zheng Hao  
LAM Williamson  
MAK Wai Fong

*Registered office:*

Cricket Square  
Hutchins Drive, P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

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

Room 1607B, 16/F,  
Convention Plaza Office Tower,  
1 Harbour Road,  
Wanchai,  
Hong Kong

29 February 2008

*To the Shareholders and, for information only,  
the Convertible Bonds holders*

Dear Sir or Madam,

**SUBSCRIPTION FOR NEW SHARES,  
PLACINGS OF NEW SHARES,  
WHITWASH WAIVER APPLICATION,  
PROPOSED BONUS ISSUE ON THE BASIS OF  
ONE BONUS SHARE FOR EVERY TWENTY EXISTING SHARES  
HELD ON RECORD DATE,  
PROPOSED RIGHTS ISSUE ON  
THE BASIS OF ONE RIGHTS SHARE FOR  
EVERY EXISTING SHARE HELD ON RECORD DATE,  
POSSIBLE ISSUE OF REMUNERATION SHARES,  
PAST TRANSACTIONS REQUIRING APPROVAL,  
ADOPTION OF NEW SHARE OPTION SCHEME AND  
TERMINATION OF EXISTING SHARE OPTION SCHEME**

**INTRODUCTION**

On 24 September 2007, it was announced that the Company entered into the Subscription Agreement and the First Placing Agreement which are conditional, among other things, the approval of the Independent Shareholders at the EGM.

\* for identification purpose only

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## LETTER FROM THE BOARD

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On 26 October 2007, it was further announced that the Company entered into the Second Placing Agreement with President Securities.

On 18 December 2007, the Company announced the Rights Issue of 723,087,310 Rights Shares to Qualifying Shareholders at the RI Subscription Price of HK\$0.01 per Rights Share on the basis of one Rights Share for every existing Share held on the Record Date.

On 27 February 2008, the Company announced the Bonus Issue of 36,154,365 Bonus Shares to BI Qualifying Shareholders on the basis of one Bonus Share for every twenty existing Shares held on the Record Date, and the possible issue of the Remuneration Shares.

On 28 February 2008, the Company announced the Past Transactions Requiring Approval.

The Board also proposed the adoption of the New Share Option Scheme and termination of the Existing Share Option Scheme.

The purpose of this circular is: (i) to provide you with further information on the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval; (ii) to set out the recommendations from the Independent Board Committee to the Independent Shareholders and the letter of advice from the Joint Independent Financial Advisers; (iii) to provide a summary of the principal terms of the New Share Option Scheme; and (iv) to give you notice of the EGM.

### **THE SUBSCRIPTION AGREEMENT**

#### **Date**

7 September 2007

#### **Parties**

- (a) The Company, as the issuer of the Subscription Shares; and
- (b) JL Investments Capital Limited (the Subscriber), a company incorporated in the British Virgin Islands with limited liability. The Subscriber and Mr. Lau, the sole director and the ultimate beneficial owner of the Subscriber, represent, warrant and undertake to the Company that neither the Subscriber, Mr. Lau, nor parties acting in concert with any of them are parties connected with or acting in concert with any substantial shareholder, chief executive and/or directors of the Company and of its subsidiaries and their respective associates.

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## LETTER FROM THE BOARD

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### The Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe from the Company, a total of 3,542,000,000 Shares at a price of HK\$0.01 each, in cash.

The Subscription Shares represent:

- (a) approximately 61.9% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the First Placing Shares and the Second Placing Shares; and
- (b) approximately 52.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the First Placing Shares, the Second Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue).

The Subscription Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issue of the Subscription Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Subscription Shares.

The Subscription Shares will be issued under a specific mandate proposed to be sought from the Shareholders at the EGM.

### The Subscription Price

The Subscription Price of HK\$0.01 per Subscription Share, which is equivalent to the par value of the Shares, represents:

- (a) a discount of approximately 88.4% to the closing price of HK\$0.086 per Share on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 89.1% to the average closing price of approximately HK\$0.092 per Share for the last 5 trading days up to and including the Last Trading Day;
- (c) a discount of approximately 89.7% to the average closing price of approximately HK\$0.097 per Share for the last 10 trading days up to and including the Last Trading Day; and

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## LETTER FROM THE BOARD

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- (d) a discount of approximately 89.9% to the net asset value of the Company of approximately HK\$0.099 per Share based on the Group's unaudited consolidated net asset value of approximately HK\$71.2 million as at 30 September 2007.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber. In determining the Subscription Price, the Company and the Subscriber have taken into consideration, among other things, the suspension of trading in the Shares on the Stock Exchange since 6 October 2003. The Directors (including the Independent Board Committee) consider that the Subscription Price is fair and reasonable.

### **Conditions Precedent**

Completion is conditional upon the satisfaction (or if applicable, waiver) of the following conditions:

- (a) the GEM Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Subscription Shares;
- (b) the passing of the necessary resolution(s) by the Independent Shareholders, in a general meeting (by way of poll) to approve the Share Subscription and any other transactions contemplated thereunder;
- (c) where applicable, the passing of the necessary resolution(s) by the Independent Shareholders (by way of poll) in general meeting to approve the Whitewash Waiver;
- (d) the Subscriber being reasonably satisfied in all material respects with the results of the due diligence review on the Group to be conducted by the Subscriber;
- (e) a proposal for the resumption in trading of the Shares on the Stock Exchange having been approved by the Stock Exchange;
- (f) the Subscriber being reasonably satisfied that the Shares will remain listed and shall resume trading on the Stock Exchange either unconditionally or subject to such conditions as the Subscriber may, acting reasonably, accept;
- (g) no indication being received on or before the date of Completion from the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange may be withdrawn or objected to;
- (h) the Whitewash Waiver having been granted by the Executive to the Subscriber and (if applicable) the satisfaction of all the conditions attaching to the Whitewash Waiver;

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## LETTER FROM THE BOARD

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- (i) the representations, warranties and undertakings given by the Company remaining true and accurate in all material respects and not misleading in any material respects as at the date of Completion;
- (j) no event, occurrence or development of a state of circumstances or facts which has had or reasonably could be expected to have a material and adverse effect on the financial position, management, business or property, results of operations, legal or financing structure, business prospects or assets or liabilities of the Group taken as a whole shall have occurred on or prior to the date of Completion; and
- (k) the First Placing Agreement becoming unconditional in all respects (save any condition requiring the Subscription Agreement to become unconditional) and the First Placing Agreement not having been terminated by the Placing Agent.

In the event that the First Placing Agreement with the Placing Agent is terminated for any reason whatsoever, the Company irrevocably undertakes to enter into a placing agreement with such other placing agent as approved by the Subscriber in writing as soon as practicable, on the same terms and conditions as contained in the Placing Agreement.

The Subscriber may, at its absolute discretion, waive compliance of the conditions (d), (i) and (j). Neither the Subscriber nor the Company may waive any of the conditions (a), (b), (c), (e), (f), (g), (h) and (k). If the above conditions (other than conditions (g), (i) and (j)) have not been fully fulfilled, satisfied or waived on or before the Long Stop Date and/or the conditions (g), (i) and (j) do not remain fulfilled on Completion (unless waived by the Subscriber), the obligations of the parties under the Subscription Agreement shall lapse and the Subscription Agreement shall be of no further effect and the parties thereto shall forthwith be released from performing or further performing such obligations as therein set forth and on their respective part(s) to perform without any liability save in respect of any antecedent breach or any accrued right or remedies, which shall not be prejudiced or affected.

If all the conditions have been fulfilled, satisfied or, if applicable, waived on or before the Long Stop Date, Completion shall take place on the third Business Day immediately following the fulfillment or satisfaction (or if applicable, waiver) of the conditions simultaneously with completion of the First Placing Agreement. As at the Latest Practicable Date, no conditions have been fulfilled/waived.

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## LETTER FROM THE BOARD

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### **WHITEWASH WAIVER**

Following the allotment and issue of the Subscription Shares by the Company to the Subscriber on Completion, the Subscriber and parties acting in concert with it will hold 3,542,000,000 Shares (representing approximately 61.9% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Placing Shares, and approximately 52.8% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (assuming that all Qualified Shareholders take up their respective entitlements under the Rights Issue)). In the absence of the Whitewash Waiver, the Subscriber would incur an obligation pursuant to Rule 26 of the Takeovers Code to make a mandatory offer to the Independent Shareholders to acquire all the Shares other than those held by the Subscriber and parties acting in concert with it.

An application has been made by the Subscriber to the Executive for the Whitewash Waiver and such grant will be subject to, among other things, (i) approval of the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver at the EGM where voting on the relevant resolution shall be decided by way of a poll; (ii) the Subscriber and parties acting in concert with it not having acquired any Shares in the six-month period prior to the date of the First Announcement but subsequent to negotiations, discussions or the reaching of understanding or agreements with the Directors in relation to the Share Subscription; and (iii) the Subscriber and parties acting in concert with it not having any acquisitions or disposals of the Shares between the date of the First Announcement and date of Completion. The Executive has agreed, subject to approval by Independent Shareholders, to waive any obligations to make a general offer which will result from the Share Subscription.

Save for the Convertible Bonds, the Company does not have any other outstanding options, derivatives, warrants and other securities convertible into the Shares or any other derivatives as at the Latest Practicable Date.

As disclosed above, upon Completion, the Subscriber and parties acting in concert with it will hold more than 50% of the total voting rights of the Company, and the Subscriber and parties acting in concert with it will be permitted to increase their shareholding interest in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

The Subscriber, Bright Castle, Mr. Cheng and Mr. Tung and their respective concert parties and associates who are involved or interested in the Share Subscription, the Placings, and/or the Whitewash Waiver, will abstain from voting on the resolutions approving the Share Subscription and the Whitewash Waiver at the EGM.

### **Highest and lowest Share prices**

Trading of the Shares has been suspended since 6 October 2003 and has not been resumed up to the Latest Practicable Date. The last closing price of the Shares was HK\$0.086.

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## LETTER FROM THE BOARD

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### **The Subscriber's dealing and interests in the Company's securities**

Save for the subscription for the Subscription Shares pursuant to the Subscription Agreement, none of the Subscriber, its sole director, and parties acting in concert with any of them has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible into Shares in the Relevant Period. As at the Latest Practicable Date, the Subscriber, its sole director, and parties acting in concert with any of them did not own or control any Shares.

### **BACKGROUND INFORMATION ON THE SUBSCRIBER**

The Subscriber is a company incorporated in the British Virgin Islands with limited liability and is beneficially wholly owned by Mr. Lau. The Subscriber and its concert parties are Independent Third Parties. The principal business of the Subscriber is investment holding. It has not undertaken any business activities other than the entering into of the Subscription Agreement. Brief details of Mr. Lau are set out in the section headed "Board composition and proposed appointment of new Directors" below.

### **FUTURE INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP**

Since 31 December 2006, the Company has successfully established contacts with several well-known telecommunication equipments manufacturers and was appointed as the priority supplier to them and has entered into memorandum of understandings with them for the supply of various products of the Group with a total indicative annual amount of approximately HK\$10 million in the coming twelve months.

Following Completion, the Subscriber intends that the Group will continue its existing principal business of manufacturing and trading of ceramic blanks and ferrules and related products. Leveraging onto the business networks of Mr. Lau in the electronic products sector developed during his previous position in senior management of a company listed on the Main Board of the Stock Exchange, the Subscriber would assist the Group to further develop its business by, including but not limited to, establishing extensive sales network and securing more new business contracts for the Group. The Subscriber has no intention to make major changes to the employees of the Group save for a possible change in the composition of the Board and certain senior management of the Group, which would be announced as and when appropriate and in compliance with the relevant rules and regulations. The Subscriber will neither re-deploy nor dispose of any of the assets (including fixed assets) of the Group other than in the ordinary course of business. Any acquisition or disposal of the assets or business of the Group, if any, will be in compliance with the GEM Listing Rules. The Subscriber has no intention of injecting any assets or business to the Group. The Group will continue to seek new business opportunities to improve the Group's profitability and prospects, and may diversify into other businesses should suitable opportunities arise. However, no specific investment target has been identified at this stage.

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## LETTER FROM THE BOARD

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### BOARD COMPOSITION AND PROPOSED APPOINTMENT OF NEW DIRECTORS

Following Completion, 3 new Directors will be appointed to the Board. No service contract or appointment letter has been entered into between the Company and any of these proposed Directors during the Relevant Period and as at the Latest Practicable Date.

Brief details of the proposed Directors are set out below:

#### **Proposed Executive Director**

##### **Mr. Lau Chi Yuen, Joseph**

Mr. Lau Chi Yuen, Joseph, aged 37, holds a Bachelor Degree in Electronic Engineering (Computer) and a Master Degree in Business Administration (Finance). Mr. Lau has over 12 years experience in portfolio and financial management in Hong Kong. Mr. Lau has previously held a senior management position of a company listed on the Main Board of the Stock Exchange, namely, Tomorrow International Holdings Limited, which is principally engaged in, amongst others, the design, development, manufacture and sale of electronic products, printed circuit boards, optical products, trading and distribution of electronic components and parts, trading of listed equity and provision of loan financing. Mr. Lau is currently the executive director and chief executive officer of eCyberChina Holdings Limited, which is a company listed on the Main Board of the Stock Exchange principally engaged in property investment, production and sales of equipment and accessories for broadband cable television. Save as disclosed above, Mr. Lau did not hold any position or directorship in listed companies in Hong Kong.

#### **Proposed Independent Non-Executive Directors**

##### **Dr. Lee Chung Mong, John**

Dr. Lee, aged 49, obtained Ph.D. Degree in Computer Science from the University of Minnesota, USA in 1989. In the same year, he was appointed as Associate, Research Staff in the Institute of Systems Science at National University of Singapore. He also worked as a faculty member of Computer Science at The Hong Kong University of Science & Technology for 8 years. In 1999, he was awarded a Teaching Excellence Appreciation Award by the Dean of the School of Engineering of The Hong Kong University of Science and Technology and was elevated as a Senior Member of the Institute of Electrical and Electronics Engineers. He invented the “Method and Apparatus for Verifying a Container Code” and the “Method for Identifying a Sequence of Alphanumeric Characters”, which were patented in the United Kingdom and the United States respectively. He is now the chairman and chief executive officer of Asia Vision Technology Ltd. He is currently the independent non-executive director of ThinSoft (Holdings) Inc., a GEM-listed company in Hong Kong.



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## LETTER FROM THE BOARD

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### **Mr. Fung Chan Man, Alex**

Mr. Fung Chan Man, Alex, aged 45, obtained a BSc (Hons) degree in Electrical Engineering from University of Bath (UK) in 1986 and subsequently an MBA degree from Heriot Watt University (UK). Mr. Fung has about 15 years working experience in financial market and corporate finance activities in both Hong Kong and PRC. He used to be a director and shareholder of BDNC, a Hong Kong based semiconductor/chip-set related algorithm designer and a joint venture of some renowned Taiwanese semiconductor designers and local Hong Kong designers, in which time he gained much experience in corporate governance and semiconductor/IT industry. Apart from that Mr. Fung also served in various local based financial institutions in managerial position, and has been giving advice to several listed and non listed companies. Mr. Fung is currently registered in SFC under type 6 licence through Innoform Ashfield Capital Limited.

### **THE PLACING AGREEMENTS**

#### **Date**

First Placing Agreement: 7 September 2007

Second Placing Agreement: 25 October 2007

#### **Placing Agent**

President Securities, and its ultimate beneficial owner, are Independent Third Parties not acting in concert with the Company, any of its Directors and substantial Shareholders, the Subscriber and parties in acting in concert with any of them. President Securities and its ultimate beneficial owner did not hold any Shares as at the Latest Practicable Date.

#### **Number of Placing Shares**

The Placing Agent has conditionally agreed to procure Placees for, and failing which, to purchase by itself as principal on a fully underwritten basis, an aggregate of 1,458,000,000 new Shares under the Placing Agreements, which represent:

- (a) approximately 25.5% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the First Placing Shares and the Second Placing Shares; and
- (b) approximately 21.7% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the First Placing Shares, the Second Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (assuming that all Qualifying Shareholders take up their respective entitlements under the Rights Issue).

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## LETTER FROM THE BOARD

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### Conditions of the Placing Agreements

Completion of each Placing Agreement is conditional upon the fulfillment of the following conditions:

- (a) the GEM Listing Committee of Stock Exchange having granted the listing of, and permission to deal in the relevant Placing Shares;
- (b) the passing by Shareholders at the EGM of an ordinary resolution approving the relevant Placing Agreements and the transactions contemplated thereunder;
- (c) in respect of the First Placing Agreement, the Subscription Agreement becoming unconditional in all respects (save any condition requiring the First Placing Agreement to become unconditional);
- (d) in respect of the Second Placing Agreement, the First Placing Agreement becoming unconditional in all respect and not having been terminated by the Placing Agent pursuant to their rights thereunder; and
- (e) there being no breach of any of the warranties, representations and/or undertakings given by the Company under the relevant Placing Agreements.

Neither the Company nor the Placing Agent may waive compliance in conformity with conditions (a), (b), (c) and (d). The Placing Agent can waive the condition (e). If any of the above conditions has not been fulfilled or waived on or before the Long Stop Date, the contract constituted by the Placing Agreements shall terminate and neither the Company nor the Placing Agent shall have any claim against the other for damages, compensation or otherwise save in respect of any antecedent breach.

### Placees

The choice of the placees for the Placing Shares shall be determined wholly and solely by the Placing Agent, subject to:

- (a) there being six or more professional, institutional, corporate and/or individual placees;
- (b) the Placing Agent having received confirmations from each and every of the placees that:
  - (i) they are Independent Third Parties; and

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## LETTER FROM THE BOARD

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- (ii) they are not acting in concert (as defined under the Takeovers Code) with the Subscriber, Bright Castle, Mr. Cheng and their respective concert parties in relation to the control of the Company; and
  
- (c) the Placings comply in all respects with the requirements of the GEM Listing Rules.

As confirmed by the Placing Agent, it intends to commence the placing of the Placing Shares immediately after fulfillment (or waiver) of all the conditions of the Placing Agreements and had not commenced the said placings as at the Latest Practicable Date. The Placing Agent will ensure that the placees fulfill the conditions set out in (b) above. The Placing Agent undertakes to comply with paragraph 5 of Schedule VI of the Takeovers Code by providing the Executive and the Stock Exchange with details of all the proposed placees, including any relevant information to establish whether or not there is a group acting in concert, and the maximum percentage which they could come to hold upon completion of the Placings.

### **Placing price**

The placing price of HK\$0.01 per Placing Share was agreed between the Company and the Placing Agent after arm's length negotiations and is identical to the price of the Subscription Shares. In the premises, the Directors (including the Independent Board Committee) consider that the price of the Placing Shares is fair and reasonable.

### **Completion of the Placings**

Under the Placing Agreements, completion of the Placings will take place simultaneously on the third Business Days upon fulfillment (or where applicable, waiver) of the above conditions (or such other date as the Company and the Placing Agent may agree in writing) and simultaneously with the Completion.

### **Rights of the Placing Shares**

The Placing Shares will be issued and allotted free of all liens, charges, encumbrances, claims, options or other third party rights, and together with all rights attaching to the Placing Shares as at the date of their issue and allotment, including the right to receive all dividends or other distributions which may be declared, paid or made by the Company on or after such date and will rank pari passu in all respects with each other.

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## LETTER FROM THE BOARD

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### Termination

Pursuant to the Placing Agreements, the Placing Agent shall be entitled to terminate the Placing Agreements, if at a time prior to 5:00 p.m. on the second Business Day immediately prior to the completion date:

- (a) there develops, occurs or comes into effect:
  - (i) any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before, on and/or after the date hereof), including an event or change in relation to or a development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature, whether or not sui generic with any of the foregoing (including but not limited to acts of government, lock-outs, fire, acts of war, SARS and H5N1), resulting in a material adverse change in, or which might be expected to result in a material adverse change in, political, economic, fiscal, financial, regulatory or stock market conditions;
  - (ii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise;
  - (iii) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group;
  - (iv) a change or development involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong or otherwise; or
  - (v) the instigation of any litigation or claim of material importance by any third party against any member of the Group; or
- (b) it comes to the notice of the Placing Agent that any of the representations, warranties, or undertakings of the Company contained in the Placing Agreements is untrue or inaccurate, breached or not complied with in any respect; or
- (c) it comes to the notice of the Placing Agent that there has been any change in the business or financial or trading position of the Group,

and which, in the sole and absolute opinion of the Placing Agent, is likely to be materially adverse to the Company or the Group or would prejudice the success of the Placings or would otherwise make the Placings inadvisable or inexpedient.

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## LETTER FROM THE BOARD

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### **PROPOSED BONUS ISSUE**

#### **Basis of Bonus Issue**

Subject to the conditions as set out under the heading “Conditions of Bonus Issue” below, the Bonus Issue is proposed to be made on the basis of one Bonus Share for every twenty existing Shares held on the Record Date by the BI Qualifying Shareholders. The Bonus Shares will be issued and credited as fully paid at par. On the basis of 723,087,310 existing Shares in issue as at the Latest Practicable Date, and assuming no further Shares will be issued or purchased before the Record Date, 36,154,365 Bonus Shares will be issued under the Bonus Issue, representing approximately 5.0% of the issued share capital as at the Latest Practicable Date and the Record Date.

It is proposed that the Directors be authorised to capitalise an amount of approximately HK\$362,000 being part of the amount standing to the credit of the share premium account of the Company and to apply the said sum in paying up in full the Bonus Shares.

#### **Record Date and closure of register of members**

The Bonus Shares will be issued to the BI Qualifying Shareholders only. Arrangement for the Excepted Shareholders are further elaborated below under the heading “BI Overseas Shareholders”.

The register of members of the Company will be closed from Thursday, 13 March 2008 to Tuesday, 18 March 2008, both dates inclusive, in order to determine the entitlement of the Shareholders to the Bonus Issue. There will be no trading of Shares on cum-entitlement or on ex-entitlement basis.

Shareholders are reminded that in order to qualify for the Bonus Issue, they must ensure that all transfers accompanied by the relevant share certificates are lodged with the Registrar at 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 12 March 2008.

#### **Fraction entitlements to Bonus Shares**

The Company will not allot any fractions of Bonus Shares. The Company will sell in the market any such Bonus Shares created from the aggregation of fractions of Bonus Shares (if a premium, net of expenses, can be obtained), and will retain the proceeds for its own benefit.

#### **Reasons for the proposed Bonus Issue**

In order to provide opportunity to Shareholders to participate in the growth of the Company by capitalization of a portion of the share premium account, as well as to ensure the shareholdings of the existing public Shareholders be maintained at not less than 9.5% immediately upon completion of the Share Subscription and the Placings as required under one of the conditions in the Decision Letter, the Board decided to propose the Bonus Issue. In addition, the Directors believe that the Bonus Issue will enhance the liquidity of the Shares in the market and thereby enlarging the Company’s shareholder and capital bases.

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## LETTER FROM THE BOARD

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### **BI Overseas Shareholders**

For the BI Overseas Shareholders, enquiry will be made by the Directors pursuant to Rule 17.41(1) of the GEM Listing Rules. Upon such enquiry, if the Directors are of the view that the exclusion of the BI Overseas Shareholders is necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Bonus Shares will not be granted to the Excepted Shareholders. The Company will make further announcement in this respect as soon as practicable. In such circumstances, arrangements will be made for the Bonus Shares which would otherwise have been issued to the Excepted Shareholders, if any, to be sold in the market as soon as practicable after dealing in the Bonus Shares commences. Any net proceeds of sale, after deduction of expenses, will be distributed in Hong Kong dollars to the Excepted Shareholders, if any, pro rata to their respective shareholdings and remittances therefore will be posted to them, at their own risk, unless the amount falling to be distributed to any such persons is less than HK\$100, in which case it will be retained for the benefit of the Company.

Based on the register of members of the Company as at the Latest Practicable Date, there were two Shareholders who are resident in a place outside Hong Kong.

### **Status of Bonus Shares**

Save for the entitlements to the Right Issue the record date for which precedes the issue of the Bonus Shares, the Bonus Shares, upon issued, will rank pari passu with the Shares then existing in all respects, including the entitlement of receiving dividends and other distributions the record date for which is on or after the date of allotment and issue of those Bonus Shares.

### **Conditions of Bonus Issue**

The Bonus Issue is conditional upon:

- (i) the completion of the Share Subscription and the Placings;
- (ii) the approval of the Bonus Issue by the Independent Shareholders at the EGM; and
- (iii) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares.

Application will be made to the GEM Listing Committee of the Stock Exchange in respect of such listings of, and permission to deal in, the Bonus Shares. Apart from making listing application to the GEM Listing Committee of the Stock Exchange, the Board does not propose to make application to any other stock exchanges for the listing of and permission to deal in, the Bonus Shares.

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## LETTER FROM THE BOARD

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### Certificates for Bonus Shares

It is expected that certificates for the Bonus Shares will be posted on or before Wednesday, 2 April 2008 at the risk of the Shareholders entitled thereto to their respective addresses shown on the register of members of the Company on the Record Date. Dealings in the Bonus Shares are expected to commence on Thursday, 3 April 2008. The subsequent dealings in the Bonus Shares are subject to stamp duty.

### THE RIGHTS ISSUE

#### Issue statistics

**One Rights Share for  
every existing Share held  
on the Record Date**

#### Basis of the Rights Issue

Number of Shares in issue as  
at the Latest Practicable Date ..... 723,087,310 Shares

Maximum number of Rights Shares to be  
issued under the Rights Issue  
(assuming no further issue of Shares  
during the period from the Latest  
Practicable Date to the Record Date)..... 723,087,310 Rights Shares

Number of Rights Shares undertaken  
to be accepted by Bright Castle ..... 180,000,000 Rights Shares

Maximum number of issued Shares immediately  
after the issue and allotment of  
the Subscription Shares, the First Placing Shares,  
the Second Placing Shares, the Bonus Shares,  
the Remuneration Shares and the Rights Shares ..... 6,706,174,620 Shares

% of Rights Shares of the existing issued Shares ..... 100.0%

% of Rights Shares of the enlarged issued Shares  
immediately after the issue and allotment of  
the Subscription Shares, the First Placing Shares,  
the Second Placing Shares, the Bonus Shares,  
the Remuneration Shares and the Rights Shares ..... 10.8%

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## LETTER FROM THE BOARD

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As the Rights Issue need not be underwritten according to the conditions set out in the Decision Letter, and it would not be cost effective to have the Rights Issue underwritten because of its size, the Rights Issue is not underwritten. The number of Rights Shares which may be issued depends on the level of acceptances and excess application under the Rights Issue. Subject to the undertaking given by Bright Castle as more particularly described in the sub-section headed “Undertaking by Bright Castle” below, the legal adviser of the Company on the laws of Cayman Islands has confirmed that there is no statutory requirements regarding minimum subscription level in order for the Rights Issue to proceed.

There will be no fraction of Rights Share as the Rights Issue is on the basis of one Rights Share for every one existing Share held.

### **Qualifying Shareholders**

The Company will provisionally allot the Rights Shares and send the Prospectus containing details of the Rights Issue to the Qualifying Shareholders and, for information only, to the Excluded Shareholders (if any). The PALs and EAFs will be sent to the Qualifying Shareholders only.

To qualify for the Rights Issue, Shareholders must at the close of business on the Record Date be registered as members of the Company. In order to be registered as members of the Company on the Record Date, Shareholders must lodge the relevant transfers of Shares (with the relevant share certificates) with the Registrar at 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong, by 4:30 p.m. on 12 March 2008.

Shareholders whose Shares are being held by a nominee company should note that the Board will regard the nominee company as a single Shareholder as shown in the register of members of the Company. Accordingly, Shareholders should note that the arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares as set out in the paragraph headed “Application for excess Rights Shares” below will not be extended to ultimate beneficial owners individually. Investors with their Shares held by a nominee (or CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own name(s) prior to the Record Date. For investors whose Shares are being held by a nominee (or CCASS) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar by 4:30 p.m. on 12 March 2008.

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

The register of members of the Company will be closed from 13 March 2008 to 18 March 2008 (both dates inclusive). No transfer of the Shares will be effected during this period.



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## LETTER FROM THE BOARD

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### **Rights of Excluded Shareholders**

As at the Latest Practicable Date, the Company has Shareholders whose addresses as shown on the register of members of the Company are located outside Hong Kong. If there are Overseas Shareholders at the close of business on the Record Date, the Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

Pursuant to Rule 17.41(1) of the GEM Listing Rules, the Directors will make enquiries regarding the applicable legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange. If, after making such enquiries, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Rights Shares to an Overseas Shareholder, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Shareholder. In such circumstances, the Rights Issue will not be extended to such Overseas Shareholders. Further information in this connection will be set out in the Prospectus to be dispatched to the Shareholders as soon as practicable. The Company will only send the Prospectus to the Excluded Shareholders for their information.

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the open market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sales, less expense, of more than HK\$100 will be paid pro rata to the relevant Excluded Shareholders in Hong Kong dollars. Any individual amounts of HK\$100 or less will be retained by the Company for its own benefit.

### **RI Subscription Price**

The RI Subscription Price of HK\$0.01 per Rights Share is payable in full when a Qualifying Shareholder accepts the provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares.

The RI Subscription Price, which is equivalent to the par value of the Shares, represents:

- (a) a discount of approximately 88.4% to the closing price of HK\$0.086 per Share on the Stock Exchange on the Last Trading Day;

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## LETTER FROM THE BOARD

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- (b) a discount of approximately 89.1% to the average closing price of approximately HK\$0.092 per Share for the 5 consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 89.7% to the average closing price of approximately HK\$0.097 per Share for the 10 consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 89.9% to the net asset value of the Company of approximately HK\$0.099 per Share based on the Group's unaudited consolidated net asset value of approximately HK\$71.2 million as at 30 September 2007; and
- (e) a discount of approximately 79.2% to the theoretical ex-entitlement price of HK\$0.048 based on the closing price of HK\$0.086 per Share on the Stock Exchange on the Last Trading Day.

Based on the closing price of HK\$0.086 per Share as quoted on the Stock Exchange on the Last Trading Day, the market value of the Rights Shares as at the Last Trading Day was HK\$62.2 million.

The RI Subscription Price is identical to the subscription price of the Subscription Shares, the First Placing Shares and the Second Placing Shares. In addition, the RI Subscription Price is proposed to be HK\$0.01 per Rights Share according to the conditions required by and set out in the Decision Letter. Accordingly, the Directors (including the Independent Board Committee) consider that the RI Subscription Price is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

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

The Rights Shares (when allotted, issued and fully paid) will rank *pari passu* in all respects with the then existing Shares in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the Rights Shares.

### **Certificates for the Rights Shares and refund cheques**

Subject to fulfillment of conditions of the Rights Issue, share certificates for all fully-paid Rights Shares and refund cheques in respect of unsuccessful excess applications (if any) are expected to be posted to those Qualifying Shareholders who have paid for and have accepted the Rights Shares by ordinary mail on or around 25 April 2008, at their own risk.

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## LETTER FROM THE BOARD

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

Qualifying Shareholders will be given the right to apply for any unsold entitlements of the Excluded Shareholders and any Rights Shares provisionally allotted but not accepted by any Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares.

Application may be made by completing the EAFs and lodging the same with appropriate remittance for the excess Rights Shares. Pursuant to Rule 10.31(1) of the GEM Listing Rules, the Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings; and
- (2) subject to availability of excess Rights Shares after allocation under principle (1) above, any further remaining excess Rights Shares will be allocated to all applicants based on a sliding scale with reference to the excess Rights Shares applied by them.

Pursuant to Rule 10.26(2) of the GEM Listing Rules, as the Rights Issue is not fully underwritten, a Shareholder who applies to take up all or part of his/her/its entitlement under the PAL or apply for excess Rights Shares under EAF may unwittingly incur an obligation to make a general offer under the Takeovers Code, unless a waiver from the Executive (as defined in the Takeovers Code) has been obtained. Accordingly, the Rights Issue will be made on the term that the Company will provide for Shareholders to apply on the basis that if the Rights Issue are not fully taken up, their applications for Rights Shares under the PALs and EAFs can be scaled down to a level which does not trigger an obligation on the part of the relevant Shareholder to make a general offer under the Takeovers Code.

### **Application for listing**

The Company will apply to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. The Rights Shares will be listed and traded on the Stock Exchange, in each board lot of 20,000 Shares, only if the Company has fulfilled all the conditions for resumption of trading (as set out in the Decision Letter) on or before the close of business on 9 April 2008. Dealings in the Rights Shares (in both their nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee and SFC transaction levy, or any other applicable fees and charges in Hong Kong.

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## LETTER FROM THE BOARD

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### Undertaking by Bright Castle

As at the Latest Practicable Date, Bright Castle is interested in 180,000,000 Shares, representing approximately 24.9% of the existing issued Shares, and has irrevocably undertaken to the Company to accept its provisional allotments, being 180,000,000 Rights Shares, under the Rights Issue in full.

### Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled:

- (i) the approval of the Rights Issue by the Independent Shareholders at the EGM;
- (ii) the GEM Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully paid forms;
- (iii) the filing of the Prospectus, the PAL and the EAF with the Registrar of Companies in Hong Kong on or prior to the posting date of two copies of each of the Prospectus Documents each duly certified in compliance with section 342C of the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the Companies Ordinance and the GEM Listing Rules;
- (iv) (if required) the approval or permission from any authority in the Cayman Islands in relation to the Rights Issue having been obtained;
- (v) fulfillment of all the conditions for resumption of trading in the Shares as set out in the Decision Letter to the satisfaction of the Stock Exchange; and
- (vi) the resumption of trading in the Shares.

### Adjustment to share options

Pursuant to the terms of the Existing Share Option Scheme adopted on 29 April 2002, an adjustment may be required to be made on the exercise price of the Options granted under the Existing Share Option Scheme as a result of the Rights Issue. All adjustment to the exercise price of the Options granted under the Existing Share Option Scheme, if any, will comply with the Note to Rule 23.03(13) of the GEM Listing Rules. As at the Latest Practicable Date, no Option had been granted under the Existing Share Option Scheme. The Company will make further announcement as appropriate regarding adjustments on the exercise price of the Options in the event that any Option is granted before the completion of the Rights Issue.

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## LETTER FROM THE BOARD

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### WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

There will be no trading of Shares on cum-rights or on ex-rights basis. Dealings in the Rights Shares in nil-paid form are expected to take place from 7 April 2008 to 16 April 2008 (both days inclusive). If the remaining conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any buying or selling of the Shares from now up to the date on which all the conditions of the Rights Issue are fulfilled, and any buying or selling of nil-paid Rights Shares, is at investors' own risk.

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

### REASONS FOR THE SHARE SUBSCRIPTION, THE PLACINGS AND THE RIGHTS ISSUE

The principal businesses of the Group involve the manufacturing and trading of ceramic blanks, ferrules and related products. The operating results and financial position of the Group for the three years ended/as at 31 December 2006 as extracted from the audited accounts of the Company for the financial years ended 31 December 2004, 2005 and 2006 are as follows:

	<b>Year ended/ As at 31 December 2006 (audited) HK\$'000</b>	<b>Year ended/ As at 31 December 2005 (audited) HK\$'000</b>	<b>Year ended/ As at 31 December 2004 (audited) HK\$'000</b>
Turnover	30,685	711	7,076
Net profit/(loss)	5,481	(15,675)	(16,090)
Net assets	73,641	49,423	50,131
Net assets per Share	HK\$0.102	HK\$0.068	HK\$0.069

The Directors (including the Independent Board Committee) consider that it will be in the best interests of the Company and its Shareholders as a whole to raise funds by means of the issue of Shares in view of the current financial position of the Group. The Share Subscription, the Placings and the Rights Issue will enable the Company to further strengthen its financial position and will provide the Group with additional new funds to enhance its existing business operations and will further enable it to make investments in projects/business which the Directors consider to have good profit potential. In addition, the Rights Issue will also serve as a good opportunity for the Shareholders to preserve their interest as well as to increase their shareholdings (if they so wish) in the Company.

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## LETTER FROM THE BOARD

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Having taken into consideration the factors discussed above, the Directors (including the Independent Board Committee) consider that the terms of the Share Subscription, the Placings and the Rights Issue (including the RI Subscription Price) are fair and reasonable and the Share Subscription, the Placings and the Rights Issue are in the interests of the Company and the Shareholders as a whole.

The net proceeds from the Share Subscription, the Placings and the Rights Issue of approximately HK\$46.0 million (assuming no Qualifying Shareholders, other than Bright Castle, take up their respective entitlements under the Rights Issue) to HK\$51.4 million (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) is intended to be used by the Group as to approximately HK\$15 million to repay part of the outstanding principal amount of the Convertible Bonds and the balance for general working capital purposes. However, pursuant to the conditions to proceed with the resumption proposal set out in the Decision Letter, the director's loans amounted HK\$9,883,000 (including the director's loan due to Mr. Cheng amounted to approximately HK\$4,884,000 and the director's loan due to Mr. Tung amounted to approximately HK\$4,999,000) as stated in the Company's interim report of 2007 shall not be repaid out of the said proceeds.

The Company confirms that it will comply with the necessary disclosure, reporting and shareholders' approval requirement under the Share Repurchases Code as and when appropriate, i.e. when the Company proceeds with making arrangements for the purpose of repaying any part of the outstanding amount of the Convertible Bonds prior to the maturity date.

The Directors confirm that each of the existing bondholders, each of them being the ultimate beneficial owners of the Convertible Bonds, is a third party independent of the Company and its connected persons (defined in the GEM Listing Rules), and save for the holding of the Convertible Bonds, none of the existing holders of the Convertible Bonds have any interest in the Company as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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Save for the Share Subscription, the First Placing, the Second Placing and the Rights Issue, all of which are yet to be approved by the Shareholders (as set out below), the Company has not conducted any equity-related fund raising exercise for the past 12 months immediately prior to the Latest Practicable Date.

Date of announcement	Event	Net Proceeds (approximately)	Intend use of proceeds	Progress as at the Latest Practicable Date
24 September 2007	Share Subscription and the First Placing	HK\$44.9 million (Total net proceeds from the Share Subscription, the First Placing and the Second Placing)	The total net proceeds is intended to be used as to approximately HK\$15 million for partial repayment of the outstanding amount of the Convertible Bonds and the balance for general working capital purposes	Resolutions to be approved at the EGM
26 October 2007	Second Placing	HK\$1.1 million (assuming no Qualifying Shareholders, other than Bright Castle, take up their respective entitlements under the Rights Issue) to HK\$6.5 million (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue)	The net proceed is intended to be used for general working capital purposes	Resolutions to be approved at the EGM

An application will be made by the Company for the listing of, and permission to deal in, the Subscription Shares, the Placing Shares and the Rights Shares.

### PAST TRANSACTIONS REQUIRING APPROVAL

Due to frequent staff turnover and lack of manpower of the Group since 2003, and the Directors' and management's oversight given that the Directors and the management had devoted their focus on improving the unsatisfactory business, the Group entered into the following several transactions which require rectification by obtaining approval of the Independent Shareholders (by way of poll) at the EGM.

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## LETTER FROM THE BOARD

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**I. (A) Formation of 湖南大陶精密科技有限公司 (“Intcera (Hunan)” or the “JV Company”) in the PRC – very substantial acquisition and connected transaction**

*Formation of the JV Company*

As stated in the Company’s 2002 third quarterly report, the Group’s production facility in Taiwan ceased operation at the end of August 2002 and relocated to China. It was further stated that the Group planned to further expand its production capacity in the PRC to take advantage of the lower costs of production in the PRC and to capture additional market share. The Directors believe that it would be possible to localise its operations in the PRC by the setting up of joint ventures and as stated in the Company’s 2003 annual report, the Directors decided to form the JV Company in order to accomplish the aforesaid business objectives and entered into the joint venture agreement described below (the “JV Agreement”).

*The JV Agreement*

Date	:	18 August 2003
Parties	:	(1) Intcera (HK), an indirectly wholly-owned subsidiary of the Company  (2) Shenzhen Zhongji Industry (Group) Co., Ltd (“Shenzhen Zhongji”) (formerly known as Shenzhen China Technology Industry Development Company Limited, which principal business is investment holding, and was beneficially owned as to 36% by Mr. Cheng as at the time the JV Agreement was entered into)
Business objective of the JV Agreement	:	To establish the JV Company with its business scope being the manufacture, processing, development and sale of ceramic ferrules and other optical components
Major responsibilities of Intcera (HK)	:	Amongst others, to liaise with overseas suppliers and customers, organisation of production, and sourcing of overseas equipment and technicians



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## LETTER FROM THE BOARD

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Major responsibilities of Shenzhen Zhongji : Amongst others, to obtain necessary licenses and permits for the JV Company in the PRC, to oversee design and construction of production facility, employ local workers, technicians and other staff

Status, registered capital and total investment amount of the JV Company : Approval for establishment of the JV Company was granted on 28 October 2003 by 湖南省工商行政管理局 (Hunan Province Administration for Industry and Commerce). Pursuant to the JV Agreement, as varied and supplemented by three supplemental agreements dated 16 July 2004, 22 July 2004 and 23 July 2004 respectively (collectively the “Supplemental Agreements”), the total investment amount of the JV Company is US\$28 million (approximately HK\$219 million), which shall include the registered capital of US\$12 million (approximately HK\$94 million).

The registered capital as to 70% (equivalent to US\$8.4 million, being approximately HK\$66 million) was to be contributed by Intcera (HK) and as to 30% (equivalent to US\$3.6 million, being approximately HK\$28 million) by Shenzhen Zhongji. Shenzhen Zhongji contributed its share of the registered capital in the form of cash, amounted to approximately US\$3.6 million (approximately HK\$28 million) by 26 June 2005.

By 26 June 2005, the Group had fulfilled its obligation to contribute 70% of the registered capital of the JV Company by the injection of technology and machineries (the “Injected Machinery”), which all together form a complete ceramic ferrules production line. The Injected Machinery had a carrying amount of approximately HK\$37.1 million as at 31 December 2004, as disclosed on note 14 of the Group’s financial statements in the Company’s 2004 annual report.

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## LETTER FROM THE BOARD

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The market value of the Injected Machinery was approximately US\$13,656,000, based on a valuation report dated 29 December 2004 and issued by Hunan Peng Cheng Certified Public Accounts Ltd., a valuer in the PRC, on the same machineries with the same valuation amount by using the market comparison approach.

The Directors confirm that Hunan Peng Cheng Certified Public Accounts Ltd and its ultimate beneficial owners are third parties independent of (i) the Company and its connected persons (as defined under the GEM Listing Rules); and (ii) Shenzhen Zhongji.

Pursuant to the supplemental agreement dated 23 July 2004 (which superceded the supplemental agreements dated 16 July 2004 and 22 July 2004), the Injected Machinery were to be transported to the JV Company in Hunan, the PRC on or before 30 September 2004. Furthermore, it was agreed that the difference in investment amount and registered capital should be financed by bank financing and any shortfall should be contributed by the parties according to their respective shareholding percentage. It was acknowledged by the parties that the excess contribution (being US\$5,256,100) by Intcera (HK) would be applied in payment of its pro-rata contribution of any such shortfall.

Save for the above, no further contributions has been made by Intcera (HK) or Shenzhen Zhongji from the date of the JV Agreement to the date of the Subsequent Disposal, and no other guarantee or capital commitment has been provided by the Group pursuant to the JV Agreement.

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## LETTER FROM THE BOARD

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- Profit sharing : The net profit of the JV Company after deducting tax and statutory reserves will be shared by the shareholders in proportion to their respective equity interests in the JV Company, i.e. as to 70% by Intcera (HK) and as to 30% by Shenzhen Zhongji.
- Condition precedent of the Supplemental Agreements : Pursuant to the Supplemental Agreements, the supplemental agreements dated 22 July 2004 and 23 July 2004 are conditional upon the passing of the necessary resolution by the Shareholders to approve the agreement.

### *Source of funding and financial effect*

The investment of Intcera (HK) in the JV Company was to be funded by internal resources of the Group. The JV Company was expected to be classified as a non-wholly owned subsidiary in the books of the Group. The financial effect resulted from the formation of the JV Company was reflected in the Group's financial statements for the financial years ended 31 December 2003 and 2004. Since the JV Company has not yet commenced operation as at the year ended 31 December 2003 and 2004, it did not have any impact on earnings or assets and liabilities of the Group for the financial years ended 31 December 2003 and 2004. The Injected Machinery for the investment in the JV Company was accounted for as "Machineries held for proposed capital contribution" in the consolidated financial statements of the Company for the year ended 31 December 2004. The formation of the JV Company was reported in note 30 to the Group's financial statements in the Company's 2003 annual report, and notes 14 and 31 to the Group's financial statements in the Company's 2004 annual report.

### *Background of Shenzhen Zhongji*

Shenzhen Zhongji, a company established in Shenzhen, the PRC, in 1996, was beneficially owned as to 36% by Mr. Cheng as at the time the JV Agreement was entered into. It was principally engaged in developing real estate, hi-tech communication, biological technology and equity investment.

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## LETTER FROM THE BOARD

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### *Reasons for forming the JV Company*

Leveraging on the lower production cost, including but not limited to cheaper, efficient and skillful labour support and operation costs in the PRC, the then Directors considered that the PRC has developed into the world's largest manufacturer of fiber optic components and was expected to maintain this advantage in the future. The Group intended to relocate its production facilities to China and planned to further expand its production capacity in China to capture additional market share and to take advantage of the lower costs of production in China. In the view that business development in the PRC market is in line with the Group's business objectives and future plans as disclosed in the prospectus of the Company dated 27 June 2000, and that the Group's Taiwan operation mainly carried out by Taicera High Tech Co., Limited ("Taicera") was inferior to its PRC counterpart in cost effectiveness, operations of Taicera had then been substantially reduced and eventually disposed of so as to minimize operating cost in Taiwan and allow the management to focus on the business development in the PRC.

The then Directors were of the view that to establish the production facilities of the Group in the PRC would be beneficial to the Company in capturing a larger market share in the PRC.

With the reasons stated above, the Company considered that the entering into of the JV Agreement was a great opportunity to restructure the Group's operation and manpower and move its production base from Taiwan to the PRC.

The then Board (including the independent non-executive Directors) considered that the terms of the JV Agreement were fair and reasonable and that the formation of the JV Company was in the interests of the Group and the Shareholders as a whole as it would help enhance the competitive edge and growth potential of the Group.

### *GEM Listing Rules Implications*

As Mr. Cheng has been at the material time the Chairman of the Company, an executive Director and substantial Shareholder holding 24.89% of the issued share capital of the Company, while Shenzhen Zhongji was beneficially owned as to 36% by Mr. Cheng as at the time the JV Agreement was entered into, the entering into of the JV Agreement constituted a connected transaction for the Company under Rule 20.12(1)(a) of the Previous GEM Listing Rules.

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## LETTER FROM THE BOARD

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Based on the applicable percentage ratios, the entering into of the JV Agreement also constituted a very substantial acquisition for the Company under Chapter 19 of the Previous GEM Listing Rules.

Formation of the JV Company was not conducted in compliance with the requirements under Chapters 19 and 20 of the Previous GEM Listing Rules, which required the Company (i) to inform the Stock Exchange as soon as practicable when the terms of the JV Agreement had been agreed; (ii) to suspend dealings in the shares of the Company pending the publication of the announcement regarding the formation of the JV Company; and (iii) to obtain approval from its independent Shareholders in a general meeting.

**(B) The subsequent disposal of interest in the JV Company – very substantial disposal and connected transaction**

*The disposal agreements (together, the “Intcera (Hunan) Disposal Agreements”)*

*The first agreement*

Date	:	30 November 2005
Vendor	:	Intcera (HK), an indirectly wholly-owned subsidiary of the Company
Purchaser	:	Real Move Profits Limited. The Directors confirmed that Real Move and its ultimate beneficial owners are third parties independent of the Company and its connected persons (“Real Move”)
Interest to be disposed of	:	70% interest in the JV Company
Consideration for the disposal	:	US\$13,656,000 or assets of equivalent value acceptable to Intcera (HK)
Condition precedent	:	Nil
Completion date	:	30 November 2005

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## LETTER FROM THE BOARD

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### *The second agreement*

Pursuant to another agreement dated 30 November 2005 entered into between Intcera (HK), the JV Company and Real Move, Real Move would pay US\$13,656,000 to the JV Company, and the JV Company would return the Injected Machinery to Intcera (HK) to satisfy the consideration payable under the first agreement, pursuant to which Intcera (HK) would have no liability or obligations, including but not limited to, the settlement of US\$13,656,000 by Real Move to the JV Company.

### *The third agreement*

Pursuant to another agreement dated 30 November 2005 entered into among Intcera (HK), Shenzhen Zhongji and Real Move, Shenzhen Zhongji agreed that the operating results of the JV Company since the incorporation of the JV Company be borne by Shenzhen Zhongji after commercial negotiation between the parties. The loss after tax of the JV Company since the incorporation to the date of disposal was wholly accounted by Shenzhen Zhongji, which was for the benefit of the Group.

### *Reasons for disposal of interest in the JV Company*

The Company continues to explore other business opportunities for the Group. By the end of 2005, the Company was about to conclude a transaction with Weiyi under the Acquisition Agreement, which was considered by the then Directors a better way in strengthening and expanding its business and operation. The Company decided to dispose of the JV Company so as to focus its resources on the expansion plan under the Acquisition Agreement. On completion of the Subsequent Disposal, the JV Company ceased to be a subsidiary of Intcera (HK).

### *Financial impact*

Since the operating results of the JV Company since its incorporation had been borne by Shenzhen Zhongji pursuant to the third agreement dated 30 November 2005, the operating results attributable to the Group by the JV Company during the financial year 2005 had been reversed upon the Subsequent Disposal. The return of the Injected Machinery from the JV Company was accounted for as “Property, plant and equipment” in the consolidated financial statements of the Company and, therefore, no impact on assets and liabilities of the Group upon the Subsequent Disposal. The Subsequent Disposal was reported in note 18 to Group’s financial statements for the financial year ended 31 December 2005.

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## LETTER FROM THE BOARD

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### *Information of the JV Company*

No business activity has been carried out by the JV Company for the years 2003 and 2004. The total assets of the JV Company as at 30 November 2005 was approximately HK\$104,949,000. Here sets out the net loss (both before and after tax) of the JV Company for the two years ended 31 December 2004 and from 1 January 2005 to 30 November 2005 (the date of disposal):

	Year ended 31 December		From 1 January 2005 to 30 November 2005
	2003	2004	2005
	HK'000	HK'000	HK'000
Loss before tax	–	–	(3,067)
Loss after tax	–	–	(3,067)

### *GEM Listing Rules implication*

As Mr. Cheng has been at the material time the Chairman of the Company, an executive Director and substantial Shareholder holding 24.89% of the issued share capital of the Company, while Shenzhen Zhongji was beneficially owned as to 34% by Mr. Cheng as at the date of the Subsequent Disposal, the Subsequent Disposal constituted a connected transaction for the Company under Rule 20.13(1)(a) of the GEM Listing Rules.

Since the applicable percentage ratios of the Subsequent Disposal exceeded 75%, the Subsequent Disposal by Intcera (HK) to Real Move also constituted a very substantial disposal for the Company under Chapter 19 of the GEM Listing Rules.

Given that the Company had failed to meet the reporting and disclosure requirements and failed to obtain approval from its independent Shareholders in a general meeting under Chapters 19 and 20 of the GEM Listing Rules in regard to the Intcera (Hunan) Disposal Agreements, such failure constituted breaches of the GEM Listing Rules.

An announcement in relation to, amongst others, the formation of the JV Company and the Subsequent Disposal has been published by the Company on 28 February 2008. Given the fact that the JV Company had been disposed of by the Company in November 2005, no pro forma statements of assets and liabilities and profit and loss of the Group for the purposes of illustrating the effect of the formation of the JV Company and of the Subsequent Disposal can be prepared and included in this circular. Resolutions will be proposed at the EGM for the Independent Shareholders to (by way of poll) approve, confirm and ratify, amongst others, the entering into of the JV Agreement and the Intcera (Hunan) Disposal Agreements and the transactions contemplated thereunder, including the formation of the JV Company and the Subsequent Disposal.

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## LETTER FROM THE BOARD

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### II. The Management Agreement – continuing connected transactions

#### *Background*

The technology rights agreement was entered into between the Company and Weiyi on 29 December 2002 (the “Technology Rights Agreement”) and was announced as continuing connected and discloseable transaction and also approved by independent Shareholders on 13 January 2003 and 3 March 2003 respectively.

The Technology Rights Agreement was in relation to the grant of the right by the Company to Weiyi to use the technology in the manufacturing of ceramic blanks and ceramic ferrules in the PRC for the duration of a maximum period of 5 years from the later of either (a) 1 January 2003 or (b) the date after the fulfilment of the conditions precedent as stated in the Technology Rights Agreement to 31 December 2007. Details of the Technology Rights Agreement have been set out in the Company’s announcement dated 13 January 2003 and circular dated 14 February 2003. The Technology Rights Agreement was subsequently terminated on 31 December 2005.

With a view to leverage on the expertise of the Group on the operation, utilization and application of the technology licensed under the Technology Rights Agreement in a more efficient manner, on 24 October 2003, Weiyi entered into the management agreement with the Group (the “Management Agreement”) pursuant to which the Group would provide the operational skills and management services to Weiyi for managing Weiyi’s operations with the technology licensed from the Group, as well as other technology development and applications. The co-existence of the Technology Rights Agreement and the Management Agreement were complementary of each other and provided the Group with additional source of income. Details of the Management Agreement were set out below.

#### *The Management Agreement*

- Date : 24 October 2003
- Parties : (1) Intcera (Hunan)
- (2) Weiyi, a private company incorporated in Shenzhen, PRC, being beneficially wholly-owned by Mr. Cheng, and principally engaged in the manufacture, production, development and sale of optical communication production in the PRC.



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## LETTER FROM THE BOARD

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- Period : A period of 3 years from the date of the Management Agreement, i.e. to 23 October 2006. The Management Agreement could be extended by Intcera (Hunan) serving on Weiyi a 6 months written notice prior to the expiry date of the Management Agreement and subject to consent of Weiyi. There was no long stop period to which the agreement could be extended.
- Rights : Pursuant to the Management Agreement, Intcera (Hunan) was (i) responsible to manage the production and sales of one production line of Weiyi at its factory in Shenzhen and (ii) granted a right to set up a new production line of ceramic blanks and ceramic ferrules in the production premises of Weiyi.
- Consideration : Intcera (Hunan) would be responsible for all the costs and expenses of Weiyi's production line and would pay to Weiyi 20% of the net profits generated by Intcera (Hunan) from such production line of Weiyi.
- Condition precedent : The Management Agreement is conditional upon the passing of the necessary resolution by the Shareholders to approve the agreement.

### ***Reason of entering into the Management Agreement***

Under the Management Agreement, Intcera (Hunan) was granted an exclusive right to use the production premises of Weiyi to manufacture, produce, develop and sell ceramic blanks and ceramic ferrules in the PRC for a period of three years. Under this arrangement, Intcera (Hunan) had an exclusive right to use the production facilities in the premises, including but not limited to, the production machines and office equipments of Weiyi. Such arrangement would minimize the time and cost for the Group to build new production premises in the PRC and was in line with the Group's objective in moving the production base from Taiwan to the PRC and to reduce operating cost.

In addition, pursuant to the Management Agreement, Intcera (Hunan) was granted a right to set up a new production line of ceramic blanks and ceramic ferrules at its own cost in the production premises of Weiyi. Intcera (Hunan) had an absolute right to sell the products manufactured under such new production line to other customers and does not need any consent of Weiyi. All the revenue and profit from these sales would belong to Intcera (Hunan). However, since the date of the Management Agreement to 30 November 2005 (on which the Management Agreement was terminated), no such new production line had been established.

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## LETTER FROM THE BOARD

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### *Consideration*

Under the terms of the Management Agreement, at the end of each financial year, Intcera (Hunan) should pay 20% of the net profit generated by Intcera (Hunan) for the use of Weiyi's production facilities to Weiyi for that year in return for the use of the Weiyi's production facilities. The consideration was proposed by Weiyi with reference to its own cost estimation. The then Directors considered the proposed 20% net profit sharing by Weiyi reasonable given the reasons that (i) the Group could conduct its production by the use of Weiyi's existing production line without incurring upfront capital expenditure; (ii) no fixed rental commitment had to be borne by the Group; and (iii) the Group was required to pay Weiyi only if net profit was generated by JV Company from the use of the Weiyi's production line. The then Directors (including the independent non-executive Directors) were of the view that the terms of the Management Agreement were fair and reasonable, based on arm's length negotiation and in normal commercial terms and was in the best interest of the Group and the Shareholders as a whole.

### *Completion and financial impact*

Since the conditions precedent of the Management Agreement, which was the obtaining of approval of the Shareholders at a shareholders' meeting, had not been fulfilled, the Management Agreement was subsequently terminated on 30 November 2005. Since the date of the entering into of the Management Agreement (i.e. 24 October 2003) to 30 November 2005, no execution of transactions as contemplated under the Management Agreement had been conducted and therefore, no payments had been made by Intcera (Hunan) to Weiyi and no operating results was attributable to the Group from the date of the Management Agreement to 30 November 2005 on which Intcera (Hunan) was disposed of by the Group. Thus there was no financial impact on the Group as a result of the entering into of the Management Agreement.

### *GEM Listing Rules implication*

As Weiyi is a connected person to the Company by virtue of it being beneficially wholly owned by Mr. Cheng, the entering into of the Management Agreement and the transactions contemplated thereunder at that time constituted continuing connected transactions for the Company and should have been subject to reporting, announcement and independent Shareholders' approval requirements under the Previous GEM Listing Rules. Since the Company had not issued any announcement, circular nor obtained independent Shareholders' approval regarding the Management Agreement and the transactions contemplated thereunder, such failure constituted breaches under Chapter 20 of the Previous GEM Listing Rules.

An announcement in relation to, amongst others, the Management Agreement has been published by the Company on 28 February 2008. Resolutions will be proposed at the EGM for the Independent Shareholders to (by way of poll) approve, confirm and ratify, amongst others, the Management Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### III. Sales to and management fees received from Weiyi – continuing connected transactions

#### *Background*

As disclosed in the annual reports for the years 2003 to 2005 of the Company, the Group had made sales to Weiyi during the years 2003 to 2005 (the “Sales Arrangement”). The Group made purchases of raw materials and consumables for Weiyi from overseas suppliers and charged Weiyi handling charges. Handling charges were collectively referred to as management fee as described in the 2003 and 2004 annual report of the Company, which amounted to approximately HK\$1,151,000 and HK\$84,000 for the years 2003 and 2004 respectively. Since Weiyi had managed to conduct most of its purchases by itself since 2005, sales to Weiyi have reduced substantially and no management fee was charged for the years 2005 and 2006.

#### *Reasons for the Sales Arrangement and financial impact*

With the Sales Arrangement, the Group could have an alternative income source apart from its other sales to its third-party customers and maintain business relationship with suppliers, given that the production of the Company had been temporarily suspended due to the relocation of its production base from Taiwan to the PRC. The revenue of the Group was strengthened which was considered by the then Directors in the interest of the Company.

#### *Transacted amounts under the Sales Arrangement*

Here sets out the sales to Weiyi and management fee received from Weiyi under the Sales Arrangement during the years 2003 to 2006, as accounted as “Revenue” and “other income” in the consolidated financial statements of the Company and reported in the Company’s annual reports in the respective years:

	2006	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to Weiyi	–	553	4,236	9,514
Management fee received from Weiyi	–	–	84	1,151

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## LETTER FROM THE BOARD

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Set forth below is a summary of the amounts outstanding from Weiyi pursuant to, among others, the Sales Arrangement during the respective period between 2003 and 2006:

	2006	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding amounts due from/(to) Weiyi as at 31 December (as disclosed in annual reports)	175	18,709	(2,128)	–
Outstanding amounts due from Weiyi being reclassified to other receivables as at 31 December	11,791	–	–	–
Total outstanding amounts due from/(to) Weiyi as at 31 December	11,966	18,709	(2,128)	–
Maximum outstanding amounts due from Weiyi during the financial year ended 31 December	18,709	18,709	7,351	9,514

As the Sales Arrangement between the Group and Weiyi had commenced since 2003, there were maximum outstanding amounts due from Weiyi of approximately HK\$9.5 million incurred during the 2003 financial year which comprised mainly the outstanding sales and management fees owed by Weiyi to the Group pursuant to the Sales Arrangement. However, since at the time the Group had short business history with Weiyi, the Company has requested Mr. Cheng, who is the beneficial owner of Weiyi, to repay the whole outstanding amounts due from Weiyi of approximately HK\$4.7 million as at 31 December 2003 by way of off-setting with part of the amounts due to Mr. Cheng. After such settlement, the Group had an outstanding amount due to Mr. Cheng of HK\$0.4 million as at 31 December 2003 which was shareholder's loan to the Company for the benefit of the Company on better than normal commercial terms where no security over the Company's assets was granted. As such, no outstanding balance of amount due from Weiyi was reported as at 31 December 2003. The amounts due to Mr. Cheng were unsecured, interest-free with no fixed term of repayment.

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## LETTER FROM THE BOARD

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The amount due to Weiyi of approximately HK\$2,128,000 recorded as at 31 December 2004 was incurred mainly from the amounts payable by Weiyi of the relevant royalty fee pursuant to the Technology Rights Agreement and the sales and management fees payable under the Sales Arrangement during the financial year 2004, and deposits of total amount of approximately HK\$6.4 million made by Weiyi to the Group from July to December 2004 pursuant to Weiyi's intention to invest in one of the subsidiaries of the Group after preliminary negotiation with the Company. The deposit was unsecured and interest-free with no fixed term of repayment and no agreement had been signed between Weiyi and the Company in this respect. However, such financial assistance from a connected person to the Company for the benefit of the Company on better than normal commercial terms with no security over the Company's assets was granted, constituted connected transaction which is exempted from reporting, announcement and independent Shareholders' approval requirements pursuant to Rule 20.65(4) of the GEM Listing Rules. The deposit was subsequently returned in full to Weiyi by the Group in 2005.

For the year ended 31 December 2005, apart from the amount due from Weiyi of approximately HK\$18,709,000 incurred mainly from the amounts payable or settlement by Weiyi of the relevant royalty fee pursuant to the Technology Rights Agreement and the sales and management fees payable under the Sales Arrangement, the increase in amount due from Weiyi is mainly due to the Advance which is described in details under the sub-section headed "Agency Agreement" below.

Since the year 2006, no sales to Weiyi pursuant to the Sales Arrangement had been conducted. The decrease in amount due from Weiyi to approximately HK\$175,000 as at 31 December 2006 was mainly due to (i) the operation of the Acquisition Agreement under which Weiyi agreed, amongst others, to carry out production through the machineries and equipment so purchased by the Group on behalf and at the direction of the Company and has incurred expenses, conducted sales, issued invoices and received payments on behalf of the Group, all of which were settled through the current accounts with Weiyi (i.e. amounts due from/to Weiyi). Details of the Acquisition Agreement is set out in the sub-section headed "Acquisition Agreement" below; and (ii) the management of the Company reclassified approximately HK\$11,791,000 from the amounts due from Weiyi to other receivables by error during the financial year 2006 (such amount was included in other receivables in 2006 annual reports but was not disclosed in the line "amount due from a related company").

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## LETTER FROM THE BOARD

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### *Terms of the transactions*

No agreement was entered into between Weiyi and the Company in regard to the Sales Arrangement. Under the Sales Arrangement, Weiyi would place separate and definitive purchase orders to the Group from time to time specifying details of purchases Weiyi would like to order. The Directors confirm that the terms of the Sales Arrangement, including the selling price of the purchases charged on Weiyi and the corresponding management fees, were negotiated and determined by reference to the then purchase price of those purchases Weiyi ordered and taken into account the administrative costs incurred by the Group in regard to the Sales Arrangement. In the opinion of the Directors, the Sales Arrangement was carried out on normal commercial terms and in ordinary course of the Group's business. There had been no such sales arrangement between the Group and Weiyi since 1 January 2006.

### *GEM Listing Rules implication*

As Weiyi is a connected person of the Company by virtue of it being beneficially wholly owned by Mr. Cheng, the Sales Arrangement constituted continuing connected transactions of the Group. Since the applicable percentage ratios for the transactions under the Sales Arrangement on an annual basis exceeded 2.5%, these continuing connected transactions and the relevant annual amounts should have been subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the then GEM Listing Rules.

Since the Group did not enter into any agreements with Weiyi in regard to the Sales Arrangement, failed to meet the reporting and disclosure requirements and failed to obtain independent Shareholders' approval regarding these transactions and the cap amount thereof, the Sales Arrangement constituted breaches under Chapter 20 of the then GEM Listing Rules.

An announcement in relation to, amongst others, the sales to Weiyi by the Company which constituted continuing connected transactions has been published by the Company on 28 February 2008. Resolutions will be proposed at the EGM for the Independent Shareholders to (by way of poll) approve, confirm and ratify, amongst others, the continuing connected transactions pursuant to the Sales Arrangement.

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## LETTER FROM THE BOARD

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### IV. The Acquisition Agreement – major and connected transaction

#### *The acquisition agreement dated 26 April 2006 (the “Acquisition Agreement”)*

Date	:	26 April 2006
Purchaser	:	Opcom Holdings (BVI) Limited, a wholly-owned subsidiary of the Company
Vendor	:	Weiyi
Assets and rights to be acquired	:	Weiyi agreed (i) to sell certain machineries and equipment to the Group; and (ii) to carry out production through such machineries and equipment so purchased by the Group on behalf and at the direction of the Company with effect from 1 January 2006 till the establishment of Chicera High Tech Limited (“Chicera”), a wholly-owned subsidiary of the Company in the PRC.

The carrying value of the machineries and equipment to be sold by Weiyi was approximately RMB43.25 million as at the date of the Acquisition Agreement.

Consideration	:	The purchase price payable by the Group under the Acquisition Agreement was HK\$15 million which had been settled in full by setting off of amount due to the Group from Weiyi.
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The machineries and equipment acquired were accounted for under “Property, plant and equipment” of the Company’s consolidated financial statements for the year ended 31 December 2006.

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## LETTER FROM THE BOARD

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Basis of Consideration : The purchase price was arrived at after arm's length negotiation between the parties having taken into account of, amongst others, the appraised value of Weiyi's machineries and equipments of approximately HK\$39.87 million as at 26 April 2006 based on the valuation by GA Appraisal Limited and supported by its valuation report dated 15 May 2006, and the technical and operating conditions of the machineries and equipments. The consideration, HK\$15 million, represents a discount of 62.38% over the appraised value of the machineries and equipments.

The Directors confirm that GA Appraisal Limited and its ultimate beneficial owners are third parties independent of (i) the Company and its connected persons (as defined under the GEM Listing Rules); and (ii) Weiyi.

The valuation of approximately HK\$39.87 million was based on the cost approach. The cost approach is based on the theory that an informed purchaser would pay no more for an asset than the cost of purchasing or producing a substitute asset with the same utility as the asset being valued. In applying the depreciated replacement cost approach, the new reproduction cost or the new replacement cost is determined. Depreciation from all causes is then deducted from that figure.



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## LETTER FROM THE BOARD

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### *Reasons for the acquisition and financial impact*

In the view to strengthen and expand its operations, the Company decided to acquire Weiyi's machineries and equipment for operation expansion and to adopt a more proactive and efficient business expansion plan by the entering into of the Acquisition Agreement with Weiyi. The robust growth of the operating performance of the Group in year 2006 as reported in the 2006 annual report of the Company has evidenced the success of the Company in adopting such business expansion strategy. As reported in the 2006 annual report of the Company, the turnover of the Group for the 2006 financial year was approximately HK\$30.7 million, representing a 43.2 times growth as compared to the 2005 financial year. In addition, the Group has achieved a net profit of approximately HK\$5.5 million for the financial year ended 31 December 2006. As reported in the latest third quarterly report, the turnover of the Group for the nine-month period ended 30 September 2007 has reached approximately HK\$38.5 million.

The earnings and assets of the Group have been enhanced pursuant to the entering into of the Acquisition Agreement. The machineries and equipment acquired were accounted for under "Property, plant and equipment" of the Company's consolidated financial statements for the year ended 31 December 2006. The acquisition has been reported in note 29 to the Groups' financial statements for the financial year ended 31 December 2006.

### *GEM Listing Rules implication*

As Weiyi is a connected person of the Company by virtue of it being beneficially wholly owned by Mr. Cheng, the entering into of the Acquisition Agreement and the implementation of the transactions contemplated thereunder at that time constituted a major and connected transaction for the Company under Chapters 19 and 20 of the GEM Listing Rules. Since the applicable percentage ratios for the Acquisition Agreement are more than 25%, the Acquisition Agreement and the transactions contemplated thereunder are subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. Since the Company had not issued any announcement, circular nor obtained independent Shareholders' approval regarding the Acquisition Agreement and the transactions contemplated thereunder, such failure constituted breaches under Chapters 19 and 20 of the GEM Listing Rules.

An announcement in relation to, amongst others, the Acquisition Agreement has been published by the Company on 28 February 2008. Resolutions will be proposed at the EGM for the Independent Shareholders to (by way of poll) approve, confirm and ratify, amongst others, the Acquisition Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### V. Agency Agreement – advance to an entity, financial assistance to a connected person and discloseable transaction

#### *The Agency Agreement*

Date	:	10 October 2005
Parties	:	(1) the Company
		(2) 大陶精密科技(深圳)有限公司, a wholly-owned subsidiary of the Company from March 2003 to November 2005 (“Shenzhen Intcera”)
		(3) Weiyi
Subject	:	The appointment of Weiyi as agent for the Company to introduce to and source potential investment project(s) in the PRC for the Company
Consideration	:	Remuneration to Weiyi by the Company was to be agreed between the parties upon successful introduction of the investment target(s) to the satisfaction of the Company

#### *Reason for the entering into of the Agency Agreement*

In order to leverage on the extensive business network of Weiyi in the PRC, the Agency Agreement was entered into between the Company, Shenzhen Intcera and Weiyi for the appointment of Weiyi as agent for the Company to introduce to and source investment project(s) in the PRC for the Company.

Pursuant to the Agency Agreement, the amount of RMB12 million (the “Advance”) (equivalent to approximately HK\$11.3 million) was made to Weiyi by the Group, through Shenzhen Intcera, as escrow money for on-ward deposit payment for any identified investment target(s), subject to instructions of the Company, in the event that appropriate investment target(s) is/are identified and agreed by the Company. The Advance was unsecured and interest-free with no fixed term of repayment but under the Agency Agreement, had to be repaid to the Company by Weiyi on demand of the Company.

The Advance had no effect on the net asset value of the Group, as the Advance increased the receivables and decreased the cash held of the Group.

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## LETTER FROM THE BOARD

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However, as disclosed in the annual report of the Company for the year 2005, since Shenzhen Intcera could not obtain certain licenses from the local regulatory authority for production, the Company disposed of its entire interest in Shenzhen Intcera to Joint Fast, a third party independent of the Company and its connected persons, on 30 November 2005 pursuant to an agreement dated 30 November 2005 entered into between Intcera (HK) and Joint Fast at the consideration of HK\$1 and the settlement of amount due from an immediate holding company of approximately HK\$935,000. Relevant financial information of Shenzhen Intcera upon the disposal have been set out in note 30 to the financial statements of the Company for the financial year ended 31 December 2005. As all the applicable percentage ratios defined under the GEM Listing Rules were less than 5%, the disposal of Shenzhen Intcera did not constitute a notifiable transaction under Chapter 19 of the GEM Listing Rules. Just before the time of disposal, the amounts due from Shenzhen Intcera to the Group of approximately HK\$11.3 million, which was incurred as a result of the Advance made to Weiyi, was undertaken by Weiyi to be repaid to the Company pursuant to the undertakings signed between the Company and Weiyi on 30 November 2005.

The Advance was escrow money, but not as lending to Weiyi, which under the terms of the Agency Agreement, was only to be applied for the purposes of paying deposit for identified investment target(s) as agreed and permitted by the Company upon the Company's instruction and therefore, the Advance was unsecured, interest-free and repayable on demand. Under the terms of the Agency Agreement, Weiyi had no right on the Advance and the Company remained at all time the beneficial owner of the Advance. As such and having considered that there is no up-front payment by the Group to Weiyi for Weiyi's provision of the investment sourcing services, the then Directors (including the independent non-executive Directors) were of the view that the terms of the Agency Agreement were fair and reasonable based on arm's length negotiation, and in the interest of the Company and its Shareholders as a whole.

### ***GEM Listing Rules implication***

Since the amount of the Advance exceeded 8% under the assets ratio defined under the GEM Listing Rules, the Advance pursuant to the Agency Agreement constituted an advance to an entity under Rule 17.15 to 17.16 of the GEM Listing Rules, which should have been subject to disclosure obligation under Rule 17.17 of the GEM Listing Rules.

The Advance pursuant to the Agency Agreement also constituted discloseable transaction under Chapter 19 of the GEM Listing Rules which should have been subject to the reporting, announcement pursuant to the GEM Listing Rules.

As Weiyi was a connected person to the Company by virtue of it being beneficially wholly owned by Mr. Cheng, the Advance constituted financial assistance to a connected party under Rule 20.63 of the GEM Listing Rules. Since the value of the assistance exceeded HK\$10,000,000, the Agency Agreement should have been subject to the reporting, announcement and independent Shareholders' approval requirements.

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## LETTER FROM THE BOARD

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An announcement in relation to, amongst others, the Agency Agreement has been published by the Company on 28 February 2008. Resolutions will be proposed at the EGM for the Independent Shareholders to (by way of poll) approve, confirm and ratify, amongst others, the Agency Agreement and the transactions contemplated thereunder.

### **VI. The Convertible Bonds**

On 31 October 2002, the Company issued the Convertible Bonds with principal amount of HK\$27,400,000 which were originally due on 31 October 2003. The Company should repay the principal amount outstanding under the Convertible Bonds to the bondholders together with interest accrued thereon up to and including the date of actual repayment upon maturity. The Convertible Bonds bear interest at a rate of 2% per annum on the aggregate principal amount outstanding from time to time, payable yearly in arrears on 31 December. The Convertible Bonds carry the rights to convert, at the discretion of the bondholders, either in whole or in part the principal amount into ordinary shares of the Company at the initial conversion price of HK\$0.17 per share (subject to adjustments), from 1 November 2002 to the maturity date. The principal terms of the Convertible Bonds had been set out and detailed in the Company's announcement dated 26 June 2002 and circular dated 16 July 2002.

Given the loss-making and unsatisfactory financial situation of the Company in recent years and in order to defer the repayment obligation under the Convertible Bonds so as to allow more working capital for the operations of the Group, the Company had entered into several supplemental agreements (as referred to in Appendix IV) with each of the bondholders to extend the maturity date of the Convertible Bonds (collectively, the "Bond Supplemental Agreements").

On 1 November 2003, the Company entered into agreements with the bondholders to extend the maturity date to 31 October 2005, with the other terms and conditions remained unchanged.

On 28 December 2004, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2006, with the other terms and conditions remained unchanged.

On 26 December 2005, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2007, with the other terms and conditions remained unchanged. Accordingly, the amount was classified as non-current at 31 December 2005.

On 31 July 2006, the Company entered into agreements with the bondholders to extend the maturity date to 30 June 2008, with the other terms and conditions remained unchanged. Accordingly, the amount was classified as non-current at 31 December 2006.

On 28 September 2007, the Company entered into agreements with the bondholders to extend the maturity date to 31 December 2009, with the other terms and conditions remained unchanged.

Save as disclosed above, all other terms of the Convertible Bonds remain unchanged.

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## LETTER FROM THE BOARD

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### *GEM Listing Rules implication*

Although the extension of the maturity date has been reflected on the notes “Convertible Bonds” to the Group’s financial statements in the Company’s annual reports in respective years, the Company had not issued any announcement regarding the entering into of the Bond Supplemental Agreements and the extension of the maturity date, such failure constituted breaches under Rule 17.32 of the GEM Listing Rules.

An announcement in relation to, amongst others, the entering into of the Bond Supplemental Agreements and the extension of the maturity date which constituted changes in terms of convertible securities, has been published by the Company on 28 February 2008. Resolutions will be proposed at the EGM for the Shareholders to approve, confirm and ratify, amongst others, the changes in terms of the Convertible Bonds.

As at the Latest Practicable Date, the outstanding principal amount of the Convertible Bonds was HK\$27.4 million which are convertible into 161,176,470 new Shares (based on the existing conversion price of the Convertible Bonds of HK\$0.17 per Share). Adjustments will be required to be made to the conversion price and accordingly the number of Shares falling to be issued upon full exercise of the conversion rights under the Convertible Bonds based on the adjusted conversion price, upon the completion of the Share Subscription, the Placings, the Bonus Issue, the issue of the Remuneration Shares and the Rights Issue. The forecast adjusted conversion price after adjusting for the effects of the Bonus Issue, the Share Subscription, the Placings, the issue of the Remuneration Shares and the Rights Issue is estimated as approximately HK\$0.0325. Further announcement will be made by the Company when the Company receives confirmation in writing in relation to such adjustments and the adjusted conversion price.

## **VII. Loan facilities provided by Mr. Tung – discloseable and connected transactions**

### *Background*

On 19 March 2002, Mr. Tung has entered into an agreement with the Company (the “First Loan Agreement”), pursuant to which Mr. Tung agreed to provide an aggregate principal amount up to HK\$16,000,000 as standby loan facility to the Company on unsecured basis, which was available for drawing from 19 March 2002 to 31 December 2002. The rate of interest applicable on the loan amount was 4.875% simple interest, and the Company was to repay any amount drawn together with all interest on a repayment date to be agreed between Mr. Tung and the Board.

A supplemental agreement, dated 3 May 2002, has been entered by the same parties, unconditionally extended the term of the availability period under First Loan Agreement to 30 June 2003.

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## LETTER FROM THE BOARD

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On 3 May 2002, Mr. Tung has entered into another agreement with the Company (the “Second Loan Agreement”), pursuant to which Mr. Tung agreed to provide an aggregate principal amount up to HK\$12,000,000 only as standby loan facility to the Company on unsecured basis, which was available for drawing from 1 October 2002 to 30 June 2003. The rate of interest applicable on the loan amount was 4.875% simple interest, and the Company was to repay any amount drawdown together with all interest on a repayment date to be agreed between Mr. Tung and the Board.

The then Directors considered that, without appropriate direct comparable facilities available to the Company at that time, the then Directors could not ascertain whether the terms of the First Loan Agreement and the Second Loan Agreement were on normal commercial terms. However, the Company did not make any drawdown on the above-mentioned facilities and therefore, no financial impact to the Company as a result of the entering of the First Loan Agreement and the Second Loan Agreement. The loan facilities have been reported on notes 1 and 31 to the Group’s financial statements for the financial year ended 31 December 2001 and 2002 respectively.

### ***GEM Listing Rules implication***

Mr. Tung was a connected person of the Company by virtue of him being the then Director and substantial shareholder of the Company in the financial year 2002. Since the Second Loan Agreement was entered within 12 months after the entering into of the First Loan Agreement, the amounts involved under the First Loan Agreement and the Second Loan Agreement should be aggregated pursuant to Rule 20.18 of the Previous GEM Listing Rules for calculation of the applicable percentage ratios. Since the applicable percentage ratios for the aggregate of the transactions were less than 15%, the entering into of the above loan agreements constituted discloseable and connected transactions under Chapter 19 and Rule 20.50 of the Previous GEM Listing Rules and should have been subject to the reporting, announcement and independent Shareholders’ approval requirements. An announcement in relation to, amongst others, the loan facilities provided by Mr. Tung to the Company has been published by the Company on 28 February 2008. Resolutions will be proposed at the EGM for the Shareholders to approve, confirm and ratify, amongst others, the First Loan Agreement and the Second Loan Agreement.

The Directors confirm that, save as disclosed above, there is no other transactions which were not conducted in compliance with the GEM Listing Rules.

As at the Latest Practicable Date, Mr. Cheng and Mr. Tung are interested in 180,000,000 Shares and 10,397,435 Shares respectively. Pursuant to the GEM Listing Rules, Mr. Cheng, Mr. Tung and their respective associates who are involved in the Past Transactions Requiring Approval, will abstain from voting on the resolution rectifying the Past Transactions Requiring Approval. Since the rectification of the Past Transactions Requiring Approval is one of the conditions for the resumption of trading of the Shares, the Subscriber, Bright Castle, Mr. Cheng, Somerley, Mr. Sabine and their respective associates are required to abstain from voting in the resolution rectifying the Past Transactions Requiring Approval.

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## LETTER FROM THE BOARD

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### **PROPOSED ISSUE OF REMUNERATION SHARES AND PROPOSED SUBSCRIPTION OF PLACING SHARES BY CORPORACTIVE FUND LIMITED**

Somerley and President Securities are the joint financial advisers to the Company regarding the Bonus Issue, the Share Subscription, the Whitewash Waiver, the Placings and the Rights Issue and the transactions contemplated thereunder. Pursuant to the engagement letter dated 6 September 2007 entered into between Somerley, President Securities and the Company, and having considered the financial position of the Company, it was agreed between the Company, Somerley and President Securities that part of the professional fees up to approximately HK\$2,238,456 charged by Somerley and President Securities may be settled by the issue of up to 223,845,635 new Shares (the “Remuneration Shares”) to them at an issue price of HK\$0.01 per new Share upon the approval by the Stock Exchange on the resumption of trading in Shares, which is equivalent to the issue price of the Subscription Shares, the Placing Shares and the Rights Shares. There is no conditions for the issue of the Remuneration Shares.

As at the Latest Practicable Date, Somerley and Mr. Sabine (being the controlling shareholder of Somerley) and their respective associates were interested in 264,000 Shares (representing approximately 0.037% of the existing issued share capital of the Company). President Securities has confirmed that, as at the Latest Practicable Date, it has no interest in the Company. Upon the issue of the Remuneration Shares, Somerley and Mr. Sabine and their respective associates will be interested in 169,286,371 Shares, representing approximately 2.5% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (on the basis that all the Rights Shares provisionally allotted are fully subscribed), and President Securities will be interested in 55,100,464 Shares, representing approximately 0.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares, and the Rights Shares (on the basis that all the Rights Shares provisionally allotted are fully subscribed).

The Company was informed that the CorporActive Fund Limited (the “Fund”) may become one of the placees of the Placings subscribing for not more than 200,000,000 Placing Shares, representing approximately 13.7% of the total number of Placing Shares under the Placings and approximately 3.0% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (on the basis that all the Rights Shares provisionally allotted are fully subscribed).

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## LETTER FROM THE BOARD

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The Fund is an open-ended investment company incorporated in the Cayman Islands which has commenced business since end of October 2007. The Fund is managed by Somerley and the Fund's shareholders comprise independent institutional and professional investors and certain members of the management of Somerley (the "Somerley Parties"). Somerley Parties hold in aggregate less than 20% of the issued share capital and voting rights of the Fund. The proposed subscription of the Placing Shares by the Fund is on normal commercial terms after arm's length negotiations and in the usual and ordinary course of business of the Fund. As at the Latest Practicable Date, the Fund has no interest in the securities of the Company.

In regard to the proposed subscription by the Fund, the Placing Agent has been informed by the Fund that the Fund is independent of the Company and its connected persons (under the definition of the GEM Listing Rules). There is neither condition nor guarantee as to the happening of the issue of the Remuneration Shares and/or the proposed subscription by the Fund. Should the proposed subscription by the Fund materialises, the Placing Agent will provide the Executive and the Stock Exchange with details of the Fund together with other proposed places as required by the Executive and the Stock Exchange.

Save for the above disclosed, each of Somerley, President Securities and the Fund has not dealt in the Shares or outstanding options, derivatives, warrants or other securities convertible into Shares in the six months prior to the date of the First Announcement and up to the Latest Practicable Date.

The Remuneration Shares will be issued under a specific mandate proposed to be sought from the Shareholders at the EGM. The issue of the Remuneration Shares is subject to Shareholders' approval at the EGM. Somerley, Mr. Sabine and their respective associates will abstain from voting on the resolution relating to the issue of the Remuneration Shares. Application will be made to the GEM Listing Committee of the Stock Exchange in respect of such listing of, and permission to deal in, the Remuneration Shares.

### **SHAREHOLDING STRUCTURE**

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares and the Second Placing Shares; (iii) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares, the Second Placing Shares and the Remuneration Shares, (iv) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares, the Second Placing Shares, the Remuneration Shares and the Rights Shares (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue); (v) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares, the Second Placing Shares,



## LETTER FROM THE BOARD

the Remuneration Shares and the Rights Shares (assuming no Qualifying Shareholders, other than Bright Castle, take up their respective entitlements under the Rights Issue) and (vi) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares, the Second Placing Shares, the Remuneration Shares and the Rights Shares (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) and assuming the full conversion of the Convertible Bonds:

	As at the Latest Practicable Date		Immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares and the Second Placing Shares		Immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares, the Second Placing Shares, the Remuneration Shares and the Rights Shares (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue)		Immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares, the Second Placing Shares, the Remuneration Shares and the Rights Shares (assuming no Qualifying Shareholders, other than Bright Castle, take up their respective entitlements under the Rights Issue)		Immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the Second Placing Shares, the Remuneration Shares and the Rights Shares (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) and assuming the full conversion of the Convertible Bonds (Note 2)			
	Shares	%	Shares	%	Shares	%	Shares	%	Shares	%		
	(approx.)		(approx.)		(approx.)		(approx.)		(approx.)			
Bright Castle (Note 1)	180,000,000	24.9	189,000,000	3.3	189,000,000	3.2	369,000,000	5.5	369,000,000	6.0	369,000,000	4.9
The Subscriber	-	-	3,542,000,000	61.4	3,542,000,000	59.2	3,542,000,000	52.8	3,542,000,000	57.5	3,542,000,000	46.9
Placées for the First Placing Shares	-	-	458,000,000	8.0	458,000,000	7.7	458,000,000	6.8	458,000,000	7.4	458,000,000	6.1
Placées for the Second Placing Shares												
The Fund	-	-	200,000,000	3.5	200,000,000	3.3	200,000,000	3.0	200,000,000	3.2	200,000,000	2.6
Other placées	-	-	800,000,000	13.9	800,000,000	13.4	800,000,000	11.9	800,000,000	13.0	800,000,000	10.6
Professional fees settlement (Note 3)												
President Securities	-	-	-	-	55,100,464	0.9	55,100,464	0.8	55,100,464	0.9	55,100,464	0.7
Somerville	264,000	0.0	277,200	0.0	169,022,371	2.8	169,286,371	2.5	169,022,371	2.7	169,286,371	2.2
Other public Shareholders	542,823,310	75.1	569,964,475	9.9	569,964,475	9.5	1,112,787,785	16.7	569,964,475	9.3	1,112,787,785	14.7
Holders of the Convertible Bonds	-	-	-	-	-	-	-	-	-	-	843,076,923	11.3
<b>Total</b>	<b>723,087,310</b>	<b>100.0</b>	<b>5,759,241,675</b>	<b>100.0</b>	<b>5,983,087,310</b>	<b>100.0</b>	<b>6,706,174,620</b>	<b>100.0</b>	<b>6,163,087,310</b>	<b>100.0</b>	<b>7,549,251,543</b>	<b>100.0</b>

**Notes:**

- These Shares are beneficially owned by Bright Castle, the entire issued share capital of which is wholly owned by Mr. Cheng.
- Based on the number of Shares that may be issued upon full conversion of the Convertible bonds based on a forecast adjusted conversion price (after adjusting for the effects of the Bonus Issue, the Share Subscription, the Placings, the issue of the Remuneration Shares and the Rights Issue) of approximately HK\$0.0325 and the outstanding principal amount of approximately HK\$27.4 million as at the Latest Practicable Date.
- Assuming that both Somerville and President Securities elect to have the professional fees of approximately HK\$2,238,456 to be settled by the issue of 223,845,635 Remuneration Shares.

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## LETTER FROM THE BOARD

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### **ADOPTION OF THE NEW SHARE OPTION SCHEME AND TERMINATION OF THE EXISTING SHARE OPTION SCHEME**

In order to provide incentives to Participants for their performance and to help the Group to retain Participants and recruit new employees, the Board proposes to adopt the New Share Option Scheme for the Company and to terminate the Existing Share Option Scheme (without prejudice to the rights and benefits of and attached to all those Option(s), if any, granted under the Existing Share Option Scheme which are outstanding) subject to the approval of the Shareholders. The New Share Option Scheme is independent of and not conditional to each of the Share Subscription, the Bonus Issue, the Right Issue, the Placings and the Past Transactions Requiring Approval.

The total issued share capital of the Company as at the Latest Practicable Date is HK\$7,231,000 divided into 723,087,310 Shares. Assuming that there is no change in the issued share capital between the period from the Latest Practicable Date to the date of the adoption of the New Share Option Scheme, the number of Shares which may fall to be allotted and issued upon exercise in full of all options to be granted under the New Share Option Scheme and any other share option scheme of the Company would be 72,308,731, representing 10% of the Shares in issue as at the Latest Practicable Date, which is within the overall limit of 30% prescribed under Rule 23.03(3) of the GEM Listing Rules.

#### **Existing Share Option Scheme**

The Existing Share Option Scheme has been adopted by the Company on 29 April 2002 under which the Directors may grant options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contributed to the Group, to subscribe for Shares for a consideration of HK\$1 for each Option granted.

As at the Latest Practicable Date, no Options had been granted under the Existing Share Option Scheme.

#### **Termination of the Existing Share Option Scheme**

Under the terms of the Existing Share Option Scheme, the Company may at any time by ordinary resolution in general meeting terminate the operation of the Existing Share Option Scheme. It is proposed that the Existing Share Option Scheme is to be terminated upon the adoption of the New Share Option Scheme subject to approval of the Shareholders.

Upon termination of the Existing Share Option Scheme, no further Options can be offered thereunder but the provisions of the Existing Share Option Scheme shall remain in all other respects in full force and effect in respect of any Options granted prior to such termination but not yet exercised at the time of termination. The Directors confirm that prior to the EGM, they will not grant any Options under the Existing Share Option Scheme.

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## LETTER FROM THE BOARD

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### **New Share Option Scheme**

The purpose of the New Share Option Scheme is to enable the Company to grant Options to the Participants in order to recognize and motivate the contribution of the employees of the Group and to provide incentives and to help the Group in retaining its existing employees and recruiting additional employees and to provide them with direct economic interest in attaining the long term business objectives of the Group.

The rules of the New Share Option Scheme provide that the Board may specify the Participants to whom Options shall be granted, the number of Shares subject to each Option and the date on which the Options shall be granted. The basis for determining the subscription price is also specified precisely in the rules of the New Share Option Scheme. There is no performance target specified in the New Share Option Scheme. The Directors consider that the aforesaid criteria and rules will serve to preserve the value of the Company and encourage Participants to acquire proprietary interests in the Company.

Subject to the approval of the New Share Option Scheme by the Shareholders, a resolution will be proposed at the EGM for the Board to grant options under the New Share Option Scheme for the subscription of not more than 10% of the entire issued capital of the Company as at the date of the passing of the relevant resolution.

With respect to the operation of the New Share Option Scheme, the Company will, where applicable, comply with the relevant requirements under Chapter 23 of the GEM Listing Rules.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options granted under the New Share Option Scheme.

### **Conditions**

The proposed adoption of the New Share Option Scheme is conditional upon:

- (a) the passing by the Shareholders of an ordinary resolution to approve and adopt the New Share Option Scheme, to authorise the Directors to grant Options thereunder and to allot and issue Shares pursuant to the exercise of any Options granted under the New Share Option Scheme and to terminate the Existing Share Option Scheme; and

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## LETTER FROM THE BOARD

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- (b) the GEM Listing Committee of the Stock Exchange granting approval for the listing of and permission to deal in any Shares to be issued and allotted pursuant to the exercise of Options to be granted under the New Share Option Scheme to the extent of 10% of the total number of Shares in issue at the date of the approval of the New Share Option Scheme.

A summary of the principal terms of the New Share Option Scheme which is proposed to be approved and adopted by the Company at the EGM is set out in Appendix III to this circular. A copy of the rules of the New Share Option Scheme is available for inspection at the office of Vincent T.K. Cheung, Yap & Co., the legal adviser of the Company, at 15/F, Alexandra House, 18 Chater Road, Hong Kong during normal business hours from the date hereof up to and including the date of the EGM.

The Company will publish an announcement on the outcome of the EGM for the adoption of the New Share Option Scheme pursuant to the GEM Listing Rules.

### **EGM**

A notice of the EGM to be held at Flat 2, 2/F, 2 Pak Sha Road, Causeway Bay, Hong Kong on 18 March 2008, Tuesday at 10:00 a.m. is set out on pages 210 to 215.

The EGM will be held to consider and if thought fit, pass the resolutions to approve the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval, and the respective transactions contemplated thereunder, the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme.

Pursuant to the Takeovers Code, the Subscriber, Bright Castle, Mr. Cheng and Mr. Tung and their respective concert parties and associates who are involved or interested in the Share Subscription, the Placings, and/or the Whitewash Waiver, will abstain from voting on the resolutions approving the Share Subscription and the Whitewash Waiver at the EGM. Given that the completion of the First Placing and Completion are inter-conditional, and that completion of the Second Placing is conditional upon, amongst others, completion of the First Placing, the Placings are also subject to approval by the Independent Shareholders at the EGM. Also given that the Bonus Issue is conditional on the Completion of the Share Subscription and the Placings, the Bonus Issue is also subject to Independent Shareholders' approval at the EGM. Somerley, Mr. Sabine and their respective associates are required to abstain from voting in the resolutions for approving the Share Subscription, the Whitewash Waiver, the Placings and the Bonus Issue.

Pursuant to the GEM Listing Rules, Mr. Cheng, Mr. Tung and their respective associates who are involved in the Past Transactions Requiring Approval, will abstain from voting on the resolution rectifying the Past Transactions Requiring Approval. Since the rectification of the Past Transactions Requiring Approval is one of the conditions for the resumption of trading of the Shares, the Subscriber, Bright Castle, Mr. Cheng, Somerley, Mr. Sabine and their respective associates are required to abstain from voting on the resolution rectifying the Past Transactions Requiring Approval.

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## LETTER FROM THE BOARD

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The Rights Issue is subject to the conditions set out in the section headed “Conditions of the Rights Issue” in this circular. In particular, the Rights Issue is conditional, amongst other things, on approval by the Independent Shareholders at the EGM. Pursuant to Rule 10.29 of the GEM Listing Rules, any controlling Shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour. Mr. Cheng, being the executive Director and the ultimate beneficial owner of Bright Castle, and his associates, will be required to abstain from voting in favour of the resolution approving the Rights Issue at the EGM.

The Independent Board Committee, comprising the non-executive Director, namely Mr. Lin Nan and the independent non-executive Directors, namely Mr. Williamson Lam, Ms. Mak Wai Fong and Mr. Liu Zheng Hao, has been formed to consider the terms of the Share Subscription, the Whitewash Waiver, the First Placing, the Second Placing, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval and the respective transactions contemplated thereunder. REXCAPITAL (Hong Kong) Limited and AsiaVest Partners Limited have been appointed as the joint independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in these regards. The appointment of the Joint Independent Financial Advisers has been approved by the Independent Board Committee.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company’s branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, 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 will 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**

Pursuant to Article 66 of the articles of association of the Company, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (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:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

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## LETTER FROM THE BOARD

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- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorized 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 member or in the case of a member being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a member.

### SUSPENSION OF TRADING IN THE SHARES

On 6 October 2003, trading of the Shares was suspended pending the release of an announcement in relation to price sensitive information of the Company.

On 29 June 2006, the GEM Listing Committee has decided to cancel the listing status of the Company. The GEM Listing (Review) Committee of the Stock Exchange considered an application from the Company for a review of the decision of the GEM Listing Committee that the listing status of the Company should be cancelled in accordance with Rule 9.14 of the GEM Listing Rules and the GEM Listing (Review) Committee decided that the listing status of the Company should be cancelled. The Company has applied to the Listing Appeals Committee for a review of the GEM Listing (Review) Committee's decision and the hearing before the Listing Appeals Committee was held on 13 September 2007 and the Listing Appeals Committee decided to adjourn the review hearing to 7 November 2007. After the adjourned review hearing held on 7 November 2007, the Listing Appeals Committee by the letter dated 14 November 2007 informed the Company of its decision to allow the Company to proceed with its resumption proposal, subject to prior compliance with the conditions, as set out below, to the satisfaction of the Stock Exchange within three months from 14 November 2007 (i.e. on or before 13 February 2008):

1. rectification of all past transactions which were not conducted in compliance with the GEM Listing rules by making appropriate disclosure and/or obtaining approval of Shareholders (independent or otherwise);

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## LETTER FROM THE BOARD

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2. (a) completion of the Share Subscription and the Placings; (b) the Share Subscription and the Placings should not be subject to any conditions, such as buyback provisions, that will compromise the subscription of genuine equity risk capital, and (c) net proceeds from the Share Subscription and the Placings in the sum of approximately HK\$45 million are to be held by a bank in Hong Kong in escrow in favour of the Company. The said proceeds to be disbursed to the Company when the Stock Exchange approves the Company's resumption of trading and only to be returned to the Subscriber and the independent placees if the Stock Exchange denies resumption of trading or fails to give a decision within seven days of the confirmation referred to in paragraph 8 below;
3. not more than HK\$15 million of the proceeds from the Share Subscription, the First Placing and the Second Placing shall be applied towards repayment of the outstanding amount of the Convertible Bonds. However, the director's loan of HK\$9,883,000 stated in the Company's interim report of 2007 shall not be repaid out of the said proceeds;
4. after completion of the Share Subscription and the Placings, no less than 9.5% of the issued share capital of the Company to remain in the hands of the existing public Shareholders now holding 75.1% in equity interest in the Company (the "Public Shareholders"). For the avoidance of doubt, such figure shall exclude the 3.1% shareholding held by Bright Castle, Mr. Cheng and their related parties;
5. (a) the Listing Appeals Committee notes that the shareholding of the Public Shareholders will be diluted from 75.1% to 9.5% after the Share Subscription and the Placings. The Listing Appeals Committee considers that the Public Shareholders should be given an opportunity to increase their shareholding and preserve their interest in the Company through a rights issue. The Company is required to provide an opportunity to all the existing Shareholders, i.e. the Public Shareholders and Bright Castle, to subscribe for new Shares on the basis of one new share for one existing Share at HK\$0.01 each under the rights issue (the "Rights Issue"). In this respect, the Company shall announce the Rights Issue inviting the existing Shareholders to subscribe for new Shares; (b) in respect of the Rights Issue: (i) it needs not be underwritten; (ii) it must be conditional on independent Shareholders' approval in accordance with the GEM Listing Rules; and (iii) the issue and allotment of new Shares may take place after the resumption of trading of the Shares on the Stock Exchange. Further, given that the Public Shareholders may not take up their pro-rata entitlement under the Rights Issue, they should be allowed to apply for additional Shares in excess of their pro-rata entitlement by way of excess application facilities to avoid further dilution of their shareholdings; and (c) for the avoidance of doubt, it is the provision of the opportunity as mentioned in paragraph 5(a) above, and not the completion of the Rights Issue which is a condition for resumption;

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## LETTER FROM THE BOARD

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6. the appointment of Tanrich Capital Limited as compliance adviser for a period commencing on the date prior to resumption of trading and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the resumption (the “Term”). If Tanrich Capital Limited should resign before the expiry of the Term, the Company shall forthwith appoint another compliance adviser (as defined in the GEM Listing Rules) for the remainder of the Term;
7. full payment of all and any outstanding listing fees; and
8. an independent professional accounting firm or a SFC licensed sponsor producing a written confirmation that all of the above conditions have been complied with. The accounting firm or the sponsor must be pre-approved by the Stock Exchange, failing which the matter shall be referred to the Listing Appeals Committee for determination.

Condition 6 has been fulfilled as at the Latest Practicable Date. In order to fulfill the other conditions, this circular is to provide further information and the EGM is to be held for seeking Independent Shareholders’ approval on the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the rectification of the Past Transactions Requiring Approval.

As stated in the Decision Letter, the deadline for the Company to satisfy the conditions set out therein may be extended by the Stock Exchange on good cause being shown by the Company. In view of the further delay in despatch of circular to a date on or before 29 February 2008 as announced by the Company on 10 January 2008, the Company expected that it might not be able to fulfill the conditions by close of business on 13 February 2008. The Company has applied to the Stock Exchange for and was granted an extension of time for the fulfillment of conditions as set out in the Decision Letter from 13 February 2008 to 9 April 2008.

Trading of the Shares will remain suspended. The resumption of the trading in Shares will be subject to prior fulfillment of certain conditions by the Company to the satisfaction of the conditions by the Company and decision of the Listing Appeals Committee.

**Shareholders should note that the Company may, or may not, be able to satisfy all the conditions set out by the Stock Exchange by close of business on 9 April 2008. In the event that the Company is unable to satisfy any of the conditions by close of business on 9 April 2008, the Stock Exchange might proceed to cancel the listing of the Company’s securities. Accordingly, Shareholders should exercise caution when dealing in the Shares.**



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## LETTER FROM THE BOARD

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Subject to the resolution approving the Rights Issue being passed by the Independent Shareholders at the EGM, the Prospectus containing further details of the Rights Issue, the financial and other information of the Group will be despatched to the Qualifying Shareholders and, for information only, to the Excluded Shareholders (if any) as soon as practicable. The PALs and the EAFs will also be despatched to the Qualifying Shareholders only.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee and the letter from the Joint Independent Financial Advisers.

REXCAPITAL (Hong Kong) Limited and AsiaVest Partners Limited have been appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval, and the respective transactions contemplated thereunder. The Board (including the Independent Board Committee), having taken into account the advice of the Joint Independent Financial Advisers, considers that the terms of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval and the respective transactions contemplated thereunder are fair and reasonable and entering into such transactions is in the interests of the Company and its Shareholders as a whole, and recommends that the Independent Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM.

The Directors (including the Independent Board Committee) consider that the possible issue of the Remuneration Shares, the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme are in the interests of the Company and its Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully,  
By Order of the Board  
**Intcera High Tech Group Limited**  
**Cheng Qing Bo**  
*Chairman*

**INTCERA**  
**Intcera High Tech Group Limited**  
**大陶精密科技集團有限公司\***

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

(Stock Code: 8041)

**SUBSCRIPTION FOR NEW SHARES,  
PLACINGS OF NEW SHARES,  
WHITEWASH WAIVER APPLICATION,  
PROPOSED BONUS ISSUE ON THE BASIS OF  
ONE BONUS SHARE FOR EVERY TWENTY EXISTING SHARES  
HELD ON RECORD DATE,  
PROPOSED RIGHTS ISSUE ON  
THE BASIS OF ONE RIGHTS SHARE FOR  
EVERY EXISTING SHARE HELD ON RECORD DATE,  
POSSIBLE ISSUE OF REMUNERATION SHARES,  
PAST TRANSACTIONS REQUIRING APPROVAL,  
ADOPTION OF NEW SHARE OPTION SCHEME  
AND  
TERMINATION OF EXISTING SHARE OPTION SCHEME**

29 February 2008

*To the Independent Shareholders,*

Dear Sir or Madam,

We refer to the circular dated 29 February issued by the Company (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.

The Independent Board Committee has been established by the Board for the purpose of advising the Independent Shareholders in connection with the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval, and the respective transactions contemplated thereunder, details of which are set out in the letter from the Board in the Circular. The Independent Board Committee comprises the non-executive Director and three independent non-executive Directors. REXCAPITAL (Hong Kong) Limited and AsiaVest Partners Limited have been appointed as the Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders regarding the Share

\* *for identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval, and the respective transactions contemplated thereunder. Details of the advice from REXCAPITAL (Hong Kong) Limited and AsiaVest Partners Limited together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 73 to 101 of the Circular.

Your attention is drawn to the letter from the Board and the letter from REXCAPITAL (Hong Kong) Limited and AsiaVest Partners Limited set out in the Circular.

Having considered the terms of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue, the Past Transactions Requiring Approval and the transactions contemplated thereunder and the advice of REXCAPITAL (Hong Kong) Limited and AsiaVest Partners Limited in relation thereto, we are of the view that the terms of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval, and the respective transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval, and the respective transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,

Independent Board Committee of

**Intcera High Tech Group Limited**

**Mr. Lin Nan**

**Mr. Liu Zheng Hao**

**Mr. Lam Williamson**

**Ms. Mak Wai Fong**

*Non-executive Director*

*Independent non-executive Directors*

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# LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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**REXCAPITAL (HONG KONG) Limited**

34th Floor, COSCO Tower  
Grand Millennium Plaza  
183 Queen's Road Central  
Hong Kong

**AsiaVest Partners**

**AsiaVest Partners Limited**

Room 2605, Universal Trade Centre,  
3 Arbuthnot Road,  
Central,  
Hong Kong

29 February 2008

*To the Independent Board Committee and the Independent Shareholders,*

Dear Sirs,

**(I) SUBSCRIPTION FOR NEW SHARES;  
(II) WHITEWASH WAIVER APPLICATION;  
(III) PLACINGS OF NEW SHARES;  
(IV) BONUS ISSUE;  
(V) RIGHTS ISSUE; AND  
(VI) PAST TRANSACTIONS REQUIRING APPROVAL**

## **INTRODUCTION**

We refer to our appointment as the joint independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Share Subscription, the Whitewash Waiver, the First Placing, the Second Placing (together the "Placings"), the Rights Issue (together with the Share Subscription and the Placings, the "Fund Raising Activities"), the Bonus Issue and the Past Transactions Requiring Approval, details of which are set out in the circular of the Company dated 29 February 2008 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 7 September 2007, the Company entered into the Subscription Agreement pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue and allot 3,542,000,000 Subscription Shares at the subscription price of HK\$0.01 per Subscription Share (the "Subscription Price"). Following the allotment and issue of the Subscription Shares by the Company to the Subscriber on Completion, the Subscriber and parties acting in concert with it will hold 3,542,000,000 Shares (representing approximately 61.9% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Placing Shares, and approximately 52.8% of the issued share capital of the Company as enlarged

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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by the issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (assuming that all Qualified Shareholders take up their respective entitlements under the Rights Issue)). Accordingly, pursuant to Rule 26 of the Takeovers Code, the Subscriber is required to make a mandatory offer to the Independent Shareholders to acquire all the Shares other than those held by the Subscriber and parties acting in concert with it.

An application has been made by the Subscriber to the Executive for the Whitewash Waiver and such grant will be subject to, among other things, (i) approval of the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver at the EGM where voting on the relevant resolution shall be decided by way of a poll; (ii) the Subscriber and parties acting in concert with it not having acquired any Shares in the six-month period prior to the date of the First Announcement but subsequent to negotiations, discussions or the reaching of understanding or agreements with the Directors in relation to the Share Subscription; and (iii) the Subscriber and parties acting in concert with it not having acquired and disposed any Shares between the date of the First Announcement and date of Completion. The Executive has agreed, subject to approval by Independent Shareholders, to waive any obligations to make a general offer which will result from the Share Subscription.

In addition, the Company has respectively entered into the First Placing Agreement and the Second Placing Agreement (together the “Placing Agreements”) with the Placing Agent on 7 September 2007 and 25 October 2007. Pursuant to the Placing Agreements, the Placing Agent has agreed to place, on a fully underwritten basis, an aggregate of 1,458,000,000 Placing Shares at the Placing Price of HK\$0.01 per Placing Share.

Pursuant to the Takeovers Code, the Subscriber, Bright Castle and Mr. Cheng and their respective concert parties and associates who are involved or interested in the Share Subscription will abstain from voting on the relevant resolutions approving the Share Subscription and the Whitewash Waiver at the EGM. Given that the First Placing and the Share Subscription are inter-conditional, and that the Second Placing is conditional upon, amongst others, the completion of the First Placing, the Placings are also subject to Independent Shareholders’ approval.

On 18 December 2007, the Company announced the Rights Issue of not more than 723,087,310 Rights Shares to Qualifying Shareholders at the Subscription Price of HK\$0.01 per Rights Share (the “RI Subscription Price”) on the basis of one Rights Share for every existing Share held on the Record Date.

As stated in the Letter from the Board of the Circular (the “Letter”), the Rights Issue need not be underwritten according to the conditions set out in the Decision Letter. Accordingly, the number of Rights Shares which may be issued depends on the level of acceptances and excess application under the Rights Issue. Subject to the undertaking given by Bright Castle as more particularly described in the section headed “Undertaking by Bright Castle” in the Letter, there is no statutory requirements regarding minimum subscription level in order for the Rights Issue to proceed.

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## **LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS**

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The Rights Issue is conditional, amongst other things, on approval by the Independent Shareholders at the EGM. The Subscriber, Bright Castle and Mr. Cheng and their respective concert parties and associates will be required to abstain from voting in favour of the resolution approving the Rights Issue at the EGM.

On 27 February 2008, the Company announced the Bonus Issue of 36,154,365 Bonus Shares to BI Qualifying Shareholders on the basis of one Bonus Share for every twenty existing Shares held on the Record Date.

The Independent Board Committee comprising the non-executive Director, namely Mr. Lin Nan and the independent non-executive Directors, namely Mr. Lam Williamson, Ms. Mak Wai Fong and Mr. Liu Zheng Hao has been established to advise the Independent Shareholders on (i) whether the terms of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval are fair and reasonable and in the interests of the Group and the Shareholders as a whole; and (ii) the voting of the resolutions in respect of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval to be proposed at the EGM.

As the Joint Independent Financial Advisers to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee for it to advise the Independent Shareholders as to whether the terms of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval are fair and reasonable, and in the interests of the Group and the Shareholders as a whole.

### **BASIS OF OUR OPINION**

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, 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 and senior management of the Company. We have assumed that all information and representations that have been provided by the Directors and senior management of the Company, 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 recommendation in compliance with Rule 17.92 of the GEM Listing Rules and Note 2 to Rule 2 of the Takeovers Code.

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## **LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS**

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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 enquires, 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. We consider that we have been provided 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 Group, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval.

### **PRINCIPAL FACTORS CONSIDERED**

In giving our recommendation in respect of the fairness and reasonableness of the terms of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval, we have taken into consideration the following factors and reasons:

#### **1. Background and reasons for the Fund Raising Activities**

The principal businesses of the Group involve the manufacturing and trading of ceramic blanks, ferrules and related products, which are components of telecommunication equipments.

On 6 October 2003, trading of the Shares was suspended pending the release of an announcement in relation to price sensitive information of the Company. As set out in the Letter from the Board in the Circular (the “Letter”), the GEM Listing Committee has decided to cancel the listing of the Company on 29 June 2006. The GEM Listing (Review) Committee of the Stock Exchange considered an application from the Company for a review of the decision of the GEM Listing Committee and the GEM Listing (Review) Committee decided that the listing status of the Company should be cancelled. The Company then applied to the Listing Appeals Committee for a review of the GEM Listing (Review) Committee’s decision and the hearing before the Listing Appeals Committee was held on 13 September 2007 and the Listing Appeals Committee decided to adjourn the review hearing to 7 November 2007. After the adjourned review hearing held on 7 November 2007, the Listing Appeals Committee on 14 November 2007 decided to allow the Company to proceed with its resumption proposal, subject to prior compliance with the conditions as set out under the section headed “SUSPENSION OF TRADING IN THE SHARES” in the Letter, to the satisfaction of the Listing Division within three months from 14 November 2007 (i.e. on or before 13 February 2008) which was subsequently extended to a date on or before 9 April 2008.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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The operating results and financial position of the Group for the nine months ended 30 September 2007 and for the four years ended 31 December 2006, as extracted from the third quarter report 2007 of the Company (the “TQR 2007”) and the annual reports of the Company for the financial years ended 31 December 2003, 2004, 2005 and 2006 respectively, are as follows:

	<b>Nine months ended 30 September 2007 (unaudited) HK\$'000</b>	<b>Year ended 31 December 2006 (audited) HK\$'000</b>	<b>Year ended 31 December 2005 (audited) HK\$'000</b>	<b>Year ended 31 December 2004 (audited) HK\$'000</b>	<b>Year ended 31 December 2003 (audited) HK\$'000</b>
Turnover	38,462	30,685	711	7,076	9,591
Net profit/(loss) after tax	(3,543)	5,481	(15,675)	(16,090)	(47,658)
Cash and bank balances	N/A (Note)	1,199	705	28,592	23,144
Net assets	71,231	73,641	49,423	50,131	66,220

*Note:* According to the interim report 2007 of the Company (the “IR 2007”), the cash and bank balances for the Group as at 30 June 2007 was approximately HK\$1.05 million.

As depicted from the above table, the Group recorded an audited total turnover of approximately HK\$30.69 million for the year ended 31 December 2006, representing a remarkable increase of approximately 4,315.75% as compared to the audited total turnover of approximately HK\$0.71 million for the year ended 31 December 2005. As set out in the annual report 2006 of the Company (the “AR 2006”), such increase in turnover is a result of new customer development, and the future sales plan of the Group will continue to diversify its products focusing not only on manufacturing of ferrules but also on producing and selling of optical fibre patch cord and patch panel. Also according to AR 2006, the Group has achieved a significant improvement in business in the year 2006 as a result of proactive business and operation expansion plan implemented by the Group by way of acquiring the equipment and businesses from Weiyi.

As stated in the Letter, in view of the current financial position of the Group, the Directors (including the Independent Board Committee) consider that it will be in the best interests of the Group and the Shareholders as a whole to raise funds by means of the Fund Raising Activities which the Directors consider will (i) enable the Company to strengthen its financial position; (ii) provide the Group with additional new funds to enhance its existing business operations; and (iii) further enable the Group to make investments in projects/business which the Directors consider to have good profit potential. In addition, the Rights Issue will also serve as a good opportunity for the Shareholders to preserve their interest as well as to increase their shareholdings (if they so wish) in the Company.



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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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As set out in IR 2007, the cash and bank balance is approximately HK\$1.05 million as at 30 June 2007. The cash ratio derived from dividing cash and bank balances by current liabilities is 3.72%. It is apparent that such cash and bank balance level is relatively minimal either for enhancement and/or expansion of the Group's existing business or for the Group's future investments, in particular, as set out in TQR 2007, the Group has successfully established contacts with several well-known telecommunication equipments manufacturers and was appointed as the priority supplier to them and has entered into memorandum of understandings (the "MOU") with them for the supply of various products of the Group with a total indicative annual amount of approximately HK\$10 million for twelve months. In view of (i) the future sales plan of diversification in the Group's product; and (ii) the limited expansion and development of the Group's existing operation and business by depending solely on its internal resources, we concur with the Directors that the Fund Raising Activities enable the Group to strengthen its financial position, enhance its existing business operations and provide flexibility to the Group to identify future investments in projects/business which the Directors consider to have good profit potential. Accordingly, we consider that the Fund Raising Activities are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

### **2. Share Subscription**

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and allot and the Subscriber has conditionally agreed to subscribe for 3,542,000,000 Subscription Shares by cash at the Subscription Price of HK\$0.01 per Subscription Share (being equivalent to the Placing Price and the RI Subscription Price).

The Subscription Shares represent approximately 61.9% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Placing Shares, and approximately 52.8% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (assuming that all Qualified Shareholders take up their respective entitlements under the Rights Issue)).

#### ***(a) Principal terms of the Share Subscription***

The Subscription Price of HK\$0.01, which is equivalent to the par value of the Shares, represents:

- (a) a discount of approximately 88.4% to the closing price of HK\$0.086 per Share on the Stock Exchange on the Last Trading Day;

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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- (b) a discount of approximately 89.1% to the average closing price of approximately HK\$0.092 per Share for the last 5 consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 89.7% to the average closing price of approximately HK\$0.097 per Share for the last 10 consecutive trading days up to and including the Last Trading Day; and
- (d) a discount of approximately 89.9% to the net asset value of the Company of approximately HK\$0.099 per Share based on the Group's unaudited consolidated net asset value of approximately HK\$71.2 million as at 30 September 2007.

As stated in the Letter, the Subscription Price was determined after arm's length negotiations between the Company and the Subscriber after taking into consideration, among other things, the suspension of trading in the Shares on the Stock Exchange since 6 October 2003.

Having taken into account the followings:

1. the loss results in 2003 to 2005 and only turnaround into profit making in 2006;
2. the long suspension in the trading in Shares of the Company; and
3. within the given time under the Listing Appeals Committee's decision, there is no certainty that the Group is able to look for another investor(s) who will agree and be capable to subscribe for the size of Subscription Shares under the uncertainty of the failure of resumption of trading in Shares; and the abrupt changes in economic conditions and the stock market sentiment, if any, after resumption,

we consider that the Subscription Price is fair and reasonable.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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Referring to the table setting out certain operating data of the Group from 2003 to the nine months ended 30 September 2007 above, we note that the results of the Group have deteriorated during the period from 2003 to 2005. A rebound in 2006 was mainly due to the Acquisition Agreement, pursuant to which Weiyi agreed to carry out production through such machineries and equipment so purchased from Weiyi by the Group on behalf and at the direction of the Group with effect from 1 January 2006. Beside, as discussed with the management of the Company, the Group has adopted the revaluation model for its consolidated accounts since 2005 and therefore its property, plants and equipment have been revaluated in the end of each year. As a result of the revaluation, fixed assets depreciation have been charged to revaluation reserves instead of the profit and loss account. However, as the Group only carries out revaluation once a year at the financial year end while there is no specific revaluations for each of the quarter end, each of the quarter results reflects a loss as depreciation is charged to the profit and loss account, which would be reversed and reclassified to revaluation reserve at the year end. Therefore, the net result of the Group for the nine months ended 30 September 2007 was distorted by the depreciation expenses. Considering the turnover increased in the nine months ended 30 September 2007 and was in excess of the turnover for the year ended 31 December 2006, we are of the opinion that the Group has a sustainable business since 2006.

In order to assess the fairness and reasonableness of the Subscription Price, we believe that a price-to-earning ratio (“PER”) approach with reference to the date of the Subscription Agreement, which is 7 September 2007, would also be appropriate in this case, since (i) from the perspective of the Subscriber, who acts as a white knight to invest in the Group for a medium to long term, the utmost crucial investment factor is the earning ability of the Group and, to the best of our knowledge, PER is generally used in the financial market to value industrial companies; and (ii) the date of the Subscription Agreement allows the price-to-earning approach to make reference with market condition under which the Subscription Price be determined.

Based on the historical net profits of the Group in 2006 of approximately HK\$5,481,000, the market capitalization on the bases of (i) the Subscription Price of HK\$0.01 and (ii) the total issued share capital of 7,549,251,543 as enlarged by the issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (assuming that all Qualified Shareholders take up their respective entitlements under the Rights Issue) and the new Shares upon full conversion of the Convertible Bonds would be approximately HK\$75,492,515, representing a PER of approximately 13.8 times.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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To the best of our knowledge, we have searched all listed companies in Hong Kong, which engages in the business of manufacturing components for telecommunication equipment (Source: Reuters), however, no suitable representative samples which are engaged in such industry are identified for comparison purpose. As such, we have identified 19 companies, excluding the Company, engages in the business in relation to telecommunication equipment or similar industry for auxiliary reference purposes. Eleven (11) of them were either loss making or with an extremely large market capitalization or with extremely high PER of over 80 times, which we consider to be irrelevant to act as a comparable in this case. PER of the remaining eight (8) comparable companies (the “Comparables”) were set out below:

Name of Comparables	Business activities	Market capitalization as at 7 September 2007 (being the date of the Subscription Agreement) (HK\$' Billion)	PER As at 7 September 2007 (being the date of the Subscription Agreement) (times)
HKC International Holdings Limited (Code: 248)	Sales and distribution of mobile phones, other electronic products telecommunication products and other high-tech products and business solutions	0.16	30.9
Quasar Communication Technology Holdings Limited (Code: 8171)	Provision of customised solutions for cellular phones	0.20	28.2
Comba Telecom Systems Holdings Limited (Code: 2342)	Provide integrated wireless coverage solutions through its national sales and services network to its customers in the PRC	2.64	19.7
Haier Electronics Group Co., Limited (Code: 1169)	Manufacturing and sale of household appliance and mobile phones	4.39	16.4

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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Name of Comparables	Business activities	Market capitalization as at 7 September 2007 (being the date of the Subscription Agreement) (HK\$' Billion)	PER As at 7 September 2007 (being the date of the Subscription Agreement) (times)
Solomon Systech (International) Limited (Code: 2878)	Design, develop and sale of proprietary IC solutions that enable sophisticated display applications such as cellular phones and handheld displays	1.89	10.7
SIM Technology Group Limited (Code: 2000)	Design, development, production, marketing and sale of mobile handset and wireless communications module and LCD module	3.12	8.3
Kantone Holdings Limited (Code: 1059)	Sales of general systems products, provision of services and software licensing, leasing of systems products and investments in e-commerce projects and holding strategic investments in technology product development companies	2.80	6.3
CCT Telecom Holdings Limited (Code: 138)	Manufacture, sale, design and develop of telecom and electronic products and accessories, manufacture of plastic and power supply components, baby products, provision of ecommerce services, investment in securities and property development	1.16	3.0
The Company	Manufacture and sale of ceramic blanks and ferrules	0.08 (Note)	13.8
	Range (excluding the Company)		3.0 to 30.9
	Mean (excluding the Company)		15.4

*Source: Reuters and Stock Exchange website*

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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*Note: The market capitalization of the Company is based on (i) the Subscription Price of HK\$0.01 and (ii) the total issued share capital of 7,549,251,543 as enlarged by the issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares, the Rights Shares (assuming that all Qualified Shareholders take up their respective entitlements under the Rights Issue), and the new Shares upon full conversion of the Convertible Bonds.*

Based on our analysis above, we noted that the PERs of the Comparables ranged from approximately 3.0 to 30.9, with a mean of approximately 15.4. The expected PER of 13.8 times as implied by the Subscription Price falls within the range of PER of the Comparables.

We have also reviewed other terms of the Subscription Agreement and are not aware of any terms which are uncommon to normal market practice. As such, 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.

***(b) Information on the Subscriber and its future intention on the Group***

As set out in the Letter, the Subscriber is a company incorporated in the British Virgin Islands with limited liability and is beneficially wholly owned by Mr. Lau Chi Yuen, Joseph. The Subscriber and its concert parties are Independent Third Parties. The principal business of the Subscriber is investment holding. It has not undertaken any business activities other than the entering into of the Subscription Agreement. Further details of the Subscriber and its beneficial owner has been set out under the section headed “BACKGROUND INFORMATION ON THE SUBSCRIBER” in the Letter.

Also stated in the Letter, following completion of the Share Subscription, the Subscriber intends that the Group will continue its existing principal business of manufacturing and trading of ceramic blanks and ferrules and related products. Leveraging onto the business networks of Mr. Lau in the electronic products sector developed during his previous position in senior management of a company listed on the Mainboard of the Stock Exchange, the Subscriber would assist the Group to further develop its business by, including but not limited to, establishing extensive sales network and securing more new business contracts for the Group. The Subscriber has no intention to make major changes to the employees save for a possible change in the composition of the Board and certain senior management of the Group, which would be announced as and when appropriate and in compliance with the relevant

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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rules and regulations. The Subscriber will neither re-deploy nor dispose of any of the assets (including fixed assets) of the Group other than in the ordinary course of business. Any acquisition or disposal of the assets or business of the Group, if any, will be in compliance with the GEM Listing Rules. The Subscriber has no intention of injecting any assets or business to the Group. The Group will continue to seek new business opportunities to improve the Group's profitability and prospects, and may diversify into other businesses should suitable opportunities arise. However, no specific investment target has been identified at this stage.

As mentioned, save for the possible change in the composition of the Board and certain senior management of the Group, there would be no further changes to the current business operation of the Group. Accordingly, we consider the Subscription Agreement would not lead to any material impact on the business operation of the Group.

### **3. Whitewash Waiver**

Following the allotment and issue of the Subscription Shares by the Company to the Subscriber on Completion, the Subscriber and parties acting in concert with it will hold 3,542,000,000 Shares (representing approximately 61.9% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Placing Shares, and approximately 52.8% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Placing Shares, the Bonus Shares, the Remuneration Shares and the Rights Shares (assuming that all Qualified Shareholders take up their respective entitlements under the Rights Issue)). In the absence of the Whitewash Waiver, the Subscriber would incur an obligation pursuant to Rule 26 of the Takeovers Code to make a mandatory offer to the Independent Shareholders to acquire all the Shares other than those held by the Subscriber and parties acting in concert with it.

An application has been made by the Subscriber to the Executive for the Whitewash Waiver and such grant will be subject to, among other things, (i) approval of the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver at the EGM where voting on the relevant resolution shall be decided by way of a poll; (ii) the Subscriber and parties acting in concert with it not having acquired any Shares in the six-month period prior to the date of the First Announcement but subsequent to negotiations, discussions or the reaching of understanding or agreements with the Directors in relation to the Share Subscription; and (iii) the Subscriber and parties acting in concert with it not having acquired or disposed any Shares between the date of the First Announcement and date of Completion. The Executive has agreed, subject to approval by independent Shareholders, to waive any obligations to make a general offer which will result from the Share Subscription.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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Given the aforementioned potential benefits of the Share Subscription to the Group and the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Subscription Agreement, is in the interests of the Group and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Share Subscription.

#### **4. Placings**

##### *Principal terms of the Placings*

The Company has respectively entered into the First Placing Agreement and the Second Placing Agreement with the Placing Agent on 7 September 2007 and 25 October 2007. Pursuant to the Placing Agreements, the Placing Agent has agreed to place, on a fully underwritten basis, an aggregate of 1,458,000,000 Placing Shares at the Placing Price of HK\$0.01 per Placing Share (being equivalent to the Subscription Price and the RI Subscription Price).

We consider the fairness and reasonableness of the Placing Price should be assessed together with the Subscription Price as a whole because both the Subscriber and the placees are being the role of investors of the Company in the Fund Raising Activities. In view that (i) the Placing Price is equivalent to the Subscription Price, which has been analyzed under the subsection headed “(a) Principal terms of the Share Subscription” under the section headed the “2. Share Subscription” and considered to be fair and reasonable and the Subscription and Placings are in effect inter-conditional on each other; and (ii) the Placing Price is determined under arm’s length negotiation between the Company and the Placing Agent at a price under which the Placing Agent will be able to procure placees for the Placing Shares, we consider the Placing Price is fair and reasonable.

#### **5. Rights Issue**

##### *Principal terms of the Rights Issue*

###### *Basis*

The Rights Issue is on the basis of one Rights Shares for every existing Share held by the Qualifying Shareholders on the Record Date at the RI Subscription Price. The Rights Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares in their fully-paid form.



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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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The Rights Issue is not underwritten, therefore, subject to the undertaking given by Bright Castle to accept its provisional allotments under the Rights Issue in full, there is no minimum amount which must be raised in order for the Rights Issue to proceed.

### *RI Subscription Price*

As stated in the Letter, the RI Subscription Price of HK\$0.01 per Rights Share (being equivalent to the Subscription Price and the Placing Price) shall be payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares.

The RI Subscription Price, which is equivalent to the par value of the Shares, represents:

- a discount of approximately 88.4% to the closing price of HK\$0.086 per Share on the Stock Exchange on the Last Trading Day;
- a discount of approximately 89.1% to the average closing price of approximately HK\$0.092 per Share for the 5 consecutive trading days up to and including the Last Trading Day;
- a discount of approximately 89.7% to the average closing price of approximately HK\$0.097 per Share for the 10 consecutive trading days up to and including the Last Trading Day;
- a discount of approximately 89.9% to the net asset value of the Company of approximately HK\$0.099 per Share based on the Group's unaudited consolidated net asset value of approximately HK\$71.2 million as at 30 September 2007; and
- a discount of approximately 79.2% to the theoretical ex-entitlement price of HK\$0.048 based on the closing price of HK\$0.086 per Share on the Stock Exchange on the Last Trading Day.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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We noted the above significant discounts to the above theoretical closing price. However, as stated in the Decision Letter, the Rights Issue is requested by the Stock Exchange as one of the conditions for resumption of trading. In addition, given the factors of (i) the Shareholders' concern on the uncertainties of the resumption of trading in Shares after the prolonged suspension of trading; and (ii) the Rights Issue is not underwritten by any underwriter, we are of the opinion that substantial discount is unavoidable on the RI Subscription Price in order to attract Qualifying Shareholders to take up their entitlements under the Rights Issue and therefore provide the Group with necessary funding to enlarge its capital base and increase its working capital. In addition, in view that (i) the RI Subscription Price is equivalent to the Subscription Price and the Placing Price, both of which are determined respectively after arm's length negotiation between the Company and the Subscriber and the Placing Agent; and (ii) not only the Subscriber and the places under the Placings, all Qualifying Shareholders are offered the opportunities to participate in the Company's equity raising exercise to subscribe new Share at par, we therefore consider the RI Subscription Price is fair and reasonable.

### **6. Possible financial effects of the Fund Raising Activities**

#### *Net asset*

Based on Pro Forma Information of the Group set out in Appendix II of the Circular, the unaudited pro forma adjusted consolidated net tangible assets of the Group amounts to approximately HK\$123.17 million upon completion of the Fund Raising Activities, representing an increase of approximately HK\$51.40 million as compared to the unaudited consolidated net tangible assets of the Group of approximately HK\$71.77 million as at 30 June 2007 and an increase of approximately HK\$49.53 million as compared to the audited consolidated net tangible assets of the Group of approximately HK\$73.64 million as at 31 December 2006. However, the unaudited pro forma adjusted consolidated net tangible asset per Share will be reduced from approximately HK\$0.10 to approximately HK\$0.02 immediately after the completion of the Fund Raising Activities. In view of the fact that the terms of the Fund Raising Activities are dilutive to the underlying consolidated net tangible assets per Share, the Fund Raising Activities will therefore give rise to a reduction in the consolidated net tangible assets value per Share as a result of the increase in total issued share capital of the Company pursuant to the issue of the Subscription Shares, Placing Shares and the Rights Shares.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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### *Working capital and gearing*

As referred to IR 2007, the unaudited consolidated cash and bank balance of the Group was approximately HK\$1.05 million while the gearing ratio (defined as total liabilities over total assets) was approximately 47% as at 30 June 2007.

As referred to the 2006 annual report, the audited consolidated cash and bank balance of the Group was approximately HK\$1.20 million while the gearing ratio (defined as total liabilities over total assets) was approximately 42% as at 31 December 2006.

Upon completion of the Fund Raising Activities, approximately HK\$51.40 million cash will be injected into the Group and hence, the working capital of the Group would rise by such amount accordingly. The gearing position of the Group would then be reduced to approximately 34% based on IR 2007 as a result of the increase in total assets of the Group upon completion of the Fund Raising Activities.

### *Conclusion*

Having considered the possible financial effects of the Fund Raising Activities on the Group as detailed above, we are of the view that the Fund Raising Activities would have a positive effect on the Group's asset, liquidity and leverage position. For this reason, we consider that the Fund Raising Activities would strengthen the overall financial position of the Group and therefore is in the interests of the Group and the Shareholders as a whole.

## **7. Financing alternatives available to the Group**

As stated in the Letter, the Group had not carried out any equity fund raising activity during the past 12 months immediately prior to the date of the First Announcement.

As mentioned earlier, although the Group has various plans and measures to improve its operating results, it has not been able to fully implement the same by reason of the Group's limited capital resources. In view of the working capital requirement of the Group for its business development and/or investment in order to enhance the growth of the Group, the Directors believe that it is in the best interest of the Group and the Shareholders as a whole to raise fund by means of equity financing.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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The Board has considered various ways of raising funds and believes that the Fund Raising Activities represent opportunities to raise capital for the Group while broadening its shareholder and capital base. With additional funding from the Fund Raising Activities, the Group will be able to expand and develop its existing business and in a better position to negotiate and conclude investment and business opportunities with potential partners and/or investors and to obtain other nature of financing for its future business development in the long term.

In view that (i) obtaining banking facilities will inevitably result in additional interest expense to the Group whilst the Fund Raising Activities will not incur any interest expense on the Company; (ii) the Group will be required to repay the principal of the bank loan upon its maturity whereas none of the Fund Raising Activities require any repayment from the Group; (iii) the time required for the application and the approval of the banking facilities given the stringent timeline of the Listing Committee's decisions; and (iv) the Rights Issue will allow the Shareholders to participate in the growth of the Company and maintain their respective proportionate interest in the Company notwithstanding the dilution of the Share Subscription and the Placings beforehand, we consider Fund Raising Activities is more preferable than bank financing. As for fund raising by way of convertible note will result in additional interest expense to the Company and repayment on maturity is required in the event holders of convertible note do not exercise the conversion rights.

Based on the above, we consider fund raising by way of the Fund Raising Activities are more favorable and effective given the limited capital resources position of the Group.

### **8. Bonus Issue**

As stated in the Letter, the Bonus Issue is proposed to be made on the basis of one Bonus Share for every existing twenty Shares held on the Record Date by the BI Qualifying Shareholders. The Bonus Shares will be issued and credited as fully paid at par. On the basis of 723,087,310 existing Shares in issue as at the Latest Practicable Date, and assuming no further Shares will be issued or purchase before the Record Date, 36,154,365 Bonus Shares will be issued under the Bonus Issue, representing approximately 5.0% of the issued share capital as at the Latest Practicable Date and the Record Date.

As stated in the Letter, in order to provide opportunity to Shareholders to participate in the growth of the Company by capitalization of a portion of the share premium account, as well as to ensure the shareholdings of the existing public Shareholders to maintain not less than 9.5% immediately upon completion of the Share Subscription and the Placings as required under one of the conditions in the Decision Letter, the Board decided to propose the Bonus Issue. In addition to that, the Directors believe that the Bonus Issue will enhance the liquidity of the Shares in the market and thereby enlarging the Shareholder and capital base.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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In view that the Bonus Issue will be available for all BI Qualifying Shareholders and will reduce the dilution effect imposed by the Fund Raising Activities, we consider the Bonus Issue is fair and reasonable and in the interest of the Group and the Shareholders as a whole.

### **9. Dilution effect**

Details of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares and the Placing Shares; (iii) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the Placing Shares and the Remuneration Shares; (iv) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the Placing Shares, the Remuneration Shares and the Rights Shares (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue); (v) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the Placing Shares, the Remuneration Shares and the Rights Shares (assuming no Qualifying Shareholders, other than Bright Castle, take up their respective entitlements under the Rights Issue); and (iv) immediately after the allotment and issue of the Bonus Shares, the Subscription Shares, the First Placing Shares, the Second Placing Shares, the Remuneration Shares and the Rights Shares (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) and assuming the full conversion of the Convertible Bonds have been set out under the section headed “SHAREHOLDING STRUCTURE” of the Letter.

As set out in the shareholding table in the Letter, in the event that all Qualifying Shareholders take up their respective entitlements under the Rights Issue, an aggregate of 5,983,087,310 new Shares (including the Bonus Shares and the Remuneration Shares) will be allotted and issued under the Fund Raising Activities, representing approximately 827.44% of the existing issued share capital of the Company and approximately 89.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Bonus Shares, the Subscription Shares, the Placing Shares, Remuneration Shares and the Rights Shares. In such event, upon completion of the Fund Raising Activities and the issue and allotment of the Bonus Shares and the Remuneration Shares, the Subscriber will become the controlling Shareholder who together with its parties acting in concert will be interested in 52.8% of the then enlarged shareholding interest of the Company and the shareholding interest of the existing public Shareholders will be decreased from approximately 75.1% to 16.7%.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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In the event that save for the undertaking given by Bright Castle to accept its provisional allotments under the Rights Issue in full, none of the Qualifying Shareholders take up their respective entitlements under the Rights Issue, an aggregate of 5,440,000,000 new Shares (including the Bonus Shares and the Remuneration Shares) will be allotted and issued under the Fund Raising Activities, representing approximately 752.3% of the existing issued share capital of the Company and approximately 88.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Bonus Shares, the Subscription Shares, the Placing Shares, Remuneration Shares and the Rights Shares. In such event, upon completion of the Fund Raising Activities and the issue and allotment of the Bonus Shares, the Remuneration Shares, the Subscriber will become the controlling Shareholder who together with its parties acting in concert together interested in 57.5% of the then enlarged shareholding interest of the Company and the shareholding interest of the existing public Shareholders will be decreased from approximately 75.1% to 9.3%.

For both scenarios stated above, with the introduction of the placees from the Placings, the public float remains to be above 25% of the shareholding of the Company upon completion of all Fund Raising Activities.

We are aware of the aforementioned potential dilution to the existing public Shareholders' shareholding interests in the Company. However, in view of the needs of the Group (i) for additional funding to loosen its limited working capital; (ii) to repay part of the Convertible Notes which otherwise will incur an interest burden to the Group given the pressing liquidity problem of the Group; (iii) to enhance and expand its existing business operation given the appointment as the priority supplier to several well-known telecommunication equipments manufacturers under the MOU; and (iv) to have a greater financial flexibility for its future investment if opportunities arise to enhance the growth of the Group, we are of the opinion that existing public Shareholders would have less prospects of improvement in the value of their attributable interest in the Company in the event that the Group is unlikely to have sufficient working capital and/or obtain additional capital funding to support its business operation needs. In addition, there is no certainty that a replacement proposal with better terms could be identified and finalised in a timely manner in order to meet the stringent timeline of the Listing Committee's decisions. As such, we consider the dilution effect of the shareholding of existing public Shareholders is acceptable as compared to the various favorable impacts on the Group brought by the Fund Raising Activities.

**10. Past Transactions Requiring Approval**

We have reviewed the relevant agreements, enquired and discussed with the management of the Company in respect of the Past Transactions Requiring Approval which constituted a connected transaction or continuing connected transaction under Chapter 20 of the GEM Listing Rules. We hereby set out the principal factors we have considered and our opinion as follows:

**(a) *Formation of 湖南大陶精密科技有限公司 (“Intcera (Hunan)” or the “JV Company”) in the PRC – Very substantial acquisition and connected transaction***

*Principal factors considered*

- (i) As stated in the Company’s 2002 third quarterly report, the Group’s production facility in Taiwan ceased operation at the end of August 2002 and relocated to China. The reasons to set up the JV Company were to further expand its production capacity in the PRC, to take advantage of the lower costs of production in the PRC, to localized its operation in the PRC, and to capture additional market share.
- (ii) The injected Machinery had a net carrying amount of approximately HK\$33.8 million as disclosed on note 18 of the Group’s financial statements in the Company’s 2005 annual report. Based on a valuation report dated 29 December 2004 issued by Hunan Peng Cheng Certified Public Accounts Ltd, a valuer in the PRC, by using the market comparison approach, the appraised value of the Injected Machinery amounted to approximately US\$13.66 million, which was significantly higher than the 70% registered capital of the JV Company of approximately US\$8.4 million to be contributed by Intcera (HK) pursuant to the JV Agreement.
- (iii) Furthermore, it was agreed that the difference in total investment amount and registered capital of the JV Company should be financed by bank financing and any shortfall should be contributed by the parties according to their respective shareholding percentage. It was acknowledged by the parties that the excess contribution (being US\$5,256,100) by Intcera (HK) shall be applied in payment of part of its pro-rata contribution of any such shortfall.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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- (iv) No business activity has been carried out by the JV Company for the years 2003 and 2004. As confirmed by the Company, the JV Company had limited business activities and incurred a net loss of approximately HK\$3.07 million for the period from 1 January 2005 to 30 November 2005 (date of the Disposal Agreement).
- (v) The JV Company was disposed by the Group on 30 November 2005 pursuant to the Intcera (Hunan) Disposal Agreement. The consideration of the Intcera (Hunan) Disposal Agreement, being the Injected Machinery (which was originally injected by the Group into the JV Company so as to fulfill its capital contribution obligation under the JV Agreement) was returned to the Group.

### *Our opinion*

Considering the above principal factors, we consider that the overall terms of the JV Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The fact that the appraised value of the Injected Machinery amounted to approximately US\$13.66 million, which was significantly higher than the 70% registered capital of the JV Company of approximately US\$8.4 million to be contributed by Intcera (HK) pursuant to the JV Agreement, is considered irrelevant since it was acknowledged by the parties that the excess contribution (being US\$5,256,100) by Intcera (HK) shall be applied in payment of part of its pro-rata contribution of the shortfall between the total investment amount and registered capital while there was no way to confirm or question whether or not the partner to the JV Company would match such pro-rata contribution since the JV Company was terminated before there was any material business operation.

**(b) *Subsequent disposal of interest in the JV Company (the “Subsequent Disposal”) – Very substantial disposal and connected transaction***

### *Principal factors considered*

- (i) No business activity has been carried out by the JV Company for the years 2003 and 2004. As confirmed by the Company, the JV Company had limited business activities and incurred a net loss of approximately HK\$3.07 million for the period from 1 January 2005 to 30 November 2005 (date of the Disposal Agreement).



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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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- (ii) The consideration of the Intcera (Hunan) Disposal Agreement, being the Injected Machinery (which was originally injected by the Group into the JV Company so as to fulfill its capital contribution obligation under the JV Agreement) was returned to the Group.
- (iii) Pursuant to another agreement dated 30 November 2005 entered into among Intcera (HK), Shenzhen Zhongji and Real Move, Shenzhen Zhongji agreed that the operating results of the JV Company since the incorporation of the JV Company be borne by it, which was for the benefit of the Group given that the JV Company incurred a net loss since the date of incorporation. Accordingly, no operating results and net assets were contributed by the JV Company for the year 31 December 2005. No gain or loss has been recognised by the Group on the formation of the JV Company or the Subsequent Disposal, as the consideration only involves the return of Injected Machinery.
- (iv) The Group entered into the Intcera (Hunan) Disposal Agreement because the the then Directors considered the transactions with Weiyi under the Acquisition Agreement were expected to be a better way in strengthening and expanding the Group's business and operation, and planned to focus the Group's resources on the expansion plan under the Acquisition Agreement.

### *Our opinion*

Considering the above principal factors, we are of the opinion that the overall terms of the Intcera (Hunan) Disposal Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole. The agreement that Shenzhen Zhongji was to bear the operating results of the JV Company since the incorporation of the JV Company is considered to be in favour of the Group and therefore in the interest of the Group and the shareholders as a whole.

### **(c) *The Management Agreement – Continuing connected transactions***

#### *Principal factors considered*

- (i) The Management Agreement was complementary to the Technology Rights Agreement and would provide the Group with additional source of income.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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- (ii) Such arrangement would minimize the time and cost for the Group to build new production premises in the PRC and could resume the operations of the Group immediately which was in line with the Group's objective in moving the production base from Taiwan to the PRC and to reduce operation cost.
- (iii) Based on our experience, the nature of the Management Agreement is commonly observed in the PRC, in that one business entity (the "Operating Entity") by paying an annual fixed cost and/or variable cost by reference either to the turnover or net profit obtains an exclusive right to operate the premises and production facilities of another entity for a specific period. During such period, the Operating Entity needs to bear all the operating costs while at the same time enjoy all economic benefits from such operation.
- (iv) The Consideration under the Management Agreement was set at 20% of the net profits generated by Intcera (Hunan) from such production line of Weiyi. As confirmed by the management of the Company, considering the financial difficulties faced by the Group at the time of entering into the Management Agreement, such consideration is fair and reasonable and to the best interests of the Shareholders as a whole given that (i) the Group could conduct its production by the use of Weiyi's existing production line without incurring upfront capital expenditure; (ii) no fixed rental commitment had to be borne by the Group; and (iii) the Group was required to pay Weiyi only if net profit was generated by JV Company from the use of Weiyi's production line.
- (v) The Management Agreement was subsequently terminated on 30 November 2005. Since the date of the entering into of the Management Agreement (i.e. 24 October 2003) to 30 November 2005, no execution of transactions as contemplated under the Management Agreement had been conducted and therefore, no payments had been made by Intcera (Hunan) to Weiyi and no operating results was attributable to the Group from the date of the Management Agreement to 30 November 2005 on which Intcera (Hunan) was disposed of by the Group.

### *Our opinion*

Considering the above principal factors, we consider the overall terms of the Management Agreement were fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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*(d) Sales to and management fees received from Weiyi – Continuing connected transactions*

*Principal factors considered*

- (i) Under the Sales Arrangement, Weiyi would place separate and definitive purchase orders to the Group from time to time specifying details of purchases Weiyi would like to order. The Group then charged Weiyi handling charges (i.e. the management fee), which amounted to approximately HK\$1,151,000 and HK\$84,000 for the years 2003 and 2004 respectively. Since Weiyi had managed to conduct most of its purchases by itself since 2005, sales to Weiyi have reduced substantially and no management fee was charged for the years 2005 and 2006.
- (ii) No agreement was entered into between Weiyi and the Company in regard to the Sales Arrangement. The Directors confirm that the terms of the Sales Arrangement, including the selling price of the purchases charged on Weiyi and the corresponding management fees, were negotiated and determined by reference to the then purchase price of those purchases Weiyi ordered and taken into account the administrative costs incurred by the Group in regard to the Sales Arrangement. In the opinion of the Directors, the Sales Arrangement was carried out on normal commercial terms and in ordinary course of the Group's business.
- (iii) Under the Sales Arrangement, the Group could manage to have an alternative income source apart from direct sales to its third-party customers and maintain business relationship with suppliers, given that the production of the Group had been temporarily suspended due to the relocation of its production base from Taiwan to the PRC, which was considered by the then Directors in the interest of the Group.

*Our opinion*

Given that the management fee just amounted to approximately HK\$1,151,000 and HK\$84,000 for the years 2003 and 2004 respectively, which were determined with reference to the administrative cost of the Group in handling Weiyi's orders, we consider that the main purpose of the Sales Agreement was to keep the Group's presence in the market so as to maintain its business relationship with suppliers during the period of relocation the Group's production base from Taiwan to the PRC and that the terms of the Sales Arrangement were fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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(e) *The Acquisition Agreement – Major Connected transaction*

*Principal factors considered*

- (i) Weiyi agreed (i) to sell certain machineries and equipment to the Group; and (ii) to carry out production through such machineries and equipment so purchased by the Group on behalf and at the direction of the Group with effect from 1 January 2006 till the establishment of Chicera High Tech Limited (“Chicera”), a wholly-owned subsidiary of the Company in the PRC.
- (ii) The purchase price was arrived at after arm’s length negotiation between the parties having taken into account of, amongst others, the appraised value of Weiyi’s machineries and equipments of approximately HK\$39.87 million as at 26 April 2006 and the technical and operating conditions of the machineries and equipments. The consideration, HK\$15 million, represents a discount of 62.38% over the appraised value of the machineries and equipments.
- (iii) In the view to strengthen and expand its operations, the Group decided to acquire Weiyi’s machineries and equipment for operation expansion and to adopt a more proactive and efficient business expansion plan by the entering into of the Acquisition Agreement with Weiyi. The robust growth of the operating performance of the Group in year 2006 as reported in the 2006 annual report of the Company has evidenced the success of the Group in adopting such business expansion strategy.
- (iv) As reported in the 2006 annual report of the Company, the turnover of the Group for the 2006 financial year was approximately HK\$30.7 million, representing a 43.2 times growth as compared to the 2005 financial year. In addition, the Group has achieved a net profit of approximately HK\$5.5 million for the financial year ended 31 December 2006. As reported in the latest third quarterly report, the turnover of the Group for the nine-month period ended 30 September 2007 has reached approximately HK\$38.5 million.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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### *Our opinion*

Considering that (i) the consideration, HK\$15 million, represents a discount of approximately 62.38% over the appraised value of the machineries and equipments; (ii) Weiyi was to carry out production through such machineries and equipment so purchased by the Group on behalf and at the direction of the Group with effect from 1 January 2006 till the establishment of Chicera High Tech Limited (“Chicera”), a wholly-owned subsidiary of the Company in the PRC; and (iii) significant improvement in the Group’s turnover has been observed during the financial year ended 31 December 2006 and nine months ended 30 September 2007, we are of the opinion that the terms of the Acquisition Agreement were in the interests of the Group and the Shareholders as a whole.

***(f) Agency Agreement – Advance to an entity, financial assistance to a connected person and discloseable transaction***

### *Principal factors considered*

- (i) In order to leverage on the extensive business network of Weiyi in the PRC, the Agency Agreement was entered into between the Company, Shenzhen Intcera and Weiyi for the appointment of Weiyi as the agent for the Company to introduce to and source investment project(s) in the PRC for the Group.
- (ii) Pursuant to the Agency Agreement, the amount of RMB12 million (the “Advance”) (equivalent to approximately HK\$11.3 million) was made to Weiyi by the Group, through Shenzhen Intcera, as escrow money for on-ward deposit payment to any identified investment target(s), subject to instructions of the Group in the event that appropriate investment target(s) is/are identified and agreed by the Group.
- (iii) The Advance was unsecured and interest-free with no fixed term of repayment but under the Agency Agreement, had to be repaid to the Group by Weiyi on demand of the Group.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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- (iv) Having considered that
- there is no up-front payment by the Group to Weiyi for Weiyi’s provision of the investment opportunities sourcing services;
  - were only escrow money for the purpose of paying deposit for independent investment target(s); and
  - the Advance was paid by the Group to Weiyi in October 2005 and subsequently settled in April 2006 by setting off of the consideration under the Acquisition Agreement, which revealed an outstanding period of only six months,

the then Directors (including the independent non-executive Directors) were of the view that the terms of the Agency Agreement (i.e. unsecured, interest-free and repayable on demand) were fair and reasonable, based on arm’s length negotiation and represented normal commercial terms.

### *Our opinion*

Considering the above principal factors, we consider the terms of the Agency Agreement (i.e. unsecured, interest-free and repayable on demand) constituted normal commercial terms and were fair and reasonable and in the interests of the Group and the Shareholders as a whole.

(g) ***Loan facilities provided by Mr. Tung Tai Yung (“Mr. Tung”) – Discloseable and Connected transactions***

### *Principal factors considered*

- (i) The standby loan facilities under the First Loan Agreement and Second Loan Agreement were unsecured, drawable at the discretion of the Company, and repayable on a repayment date to be agreed between Mr. Tung and the Company’s Board of Directors.
- (ii) The rate of interest on the standby loan facilities under the First Loan Agreement and Second Loan Agreement was 4.875% simple interest on the actual amount drawn by the Company. In 2002, the prime lending rate in Hong Kong ranged from 5% to 5.125% (source: Bloomberg). The rate of interest of 4.875% under the First Loan Agreement and Second Loan Agreement was therefore lower than the prime lending rate.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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- (iii) Referring to the 2001 annual report of the Group, the Group incurred net loss of approximately HK\$163.60 million, had net current liabilities of approximately HK\$8.73 million and had negative operating cashflow of approximately HK\$48.73 million. We also notice continues deterioration of operating results and financial position and substantial repayment of bank loans in financial years ended 2002 and 2003 of the Group.
- (iv) The then Directors considered that without appropriate direct comparable facilities available to the Company at that time, the then Directors could not ascertain whether the terms of the First Loan Agreement and the Second Loan Agreement were on normal commercial terms.
- (v) No drawdown have been made by the Company and therefore no interest expense was incurred.

### *Our opinion*

Considering the above principal factors, we consider the terms of the loan facilities provided by Mr. Tung were fair and reasonable and in the interests of the Group and the Shareholders as a whole.

## GENERAL

Your attention is nevertheless drawn to the fact that the resumption of the trading in the Shares will be subject to prior fulfillment of the conditions, as set out in the section headed “SUSPENSION OF TRADING IN THE SHARES” in the Letter by the Company to the satisfaction of the Listing Division. Shareholders should note that the Company may, or may not, be able to satisfy all the conditions set out by the Stock Exchange by close of business on 9 April 2008. In the event that the Company is unable to satisfy any of the conditions by close of business on 9 April 2008, the Stock Exchange might proceed to cancel the listing of the Company’s securities. Accordingly, Shareholders should exercise caution when dealing in the Shares and be warned that these proposed transactions contain non-completion risk, which is beyond the scope of our recommendation.

As set out in the Letter, for the Rights Issue, there will be no trading of Shares on cum-rights or on ex-rights basis. Dealings in the Rights Shares in nil-paid form are expected to take place from 7 April 2008 to 16 April 2008 (both days inclusive). If the remaining conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any buying or selling of the Shares from now up to the date on which all the conditions of the Rights Issue are fulfilled, and any buying or selling of nil-paid Rights Shares, is at investors’ own risk.

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# LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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## RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that the terms of the Share Subscription, Whitewash Waiver, Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval are (i) (save for the First Loan Agreement and the Second Loan Agreement which as set out under the sub-section headed “Loan facilities provided by Mr. Tung Tai Yung (“Mr. Tung”) – Discloseable and Connected transactions” above which the then Directors could not ascertain whether they were on normal commercial terms) in normal commercial terms; and (ii) fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Independent Shareholders as a whole.

On the basis that (i) the trading in the Shares had already been suspended for more than four years and the GEM Listing Committee has once decided to cancel the listing of the Company on 29 June 2006, although the Listing Appeals Committee decided to allow the Company to proceed with the resumption proposal on 14 November 2007; and (ii) there is no certainty that a replacement proposal with better terms could be identified and finalised in a timely manner in order to meet the stringent timeline of the Listing Appeal Committee’s decisions, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Share Subscription, Whitewash Waiver, Placings, the Bonus Issue, the Rights Issue and the Past Transactions Requiring Approval to be proposed at the EGM.

Yours faithfully,

For and on behalf of  
**REXCAPITAL (Hong Kong) Limited**  
**Sam Lum**  
*Executive Director*

For and on behalf of  
**AsiaVest Partners Limited**  
**Raymond Lo CF**  
*Managing Partner*



## 1. FINANCIAL SUMMARY

The following is a summary of the unaudited consolidated results of the Group for the six months ended 30 June 2006 and 2007, the audited consolidated results of the Group for the three years ended 31 December 2006, the unaudited consolidated financial positions of the Group as at the Group as at 30 June 2007 and the audited consolidated financial positions of the Group for the three years ended 31 December 2006 extracted from the relevant interim report and annual reports of the Company:

	Six months ended		Year ended 31 December		
	30 June		2006	2005	2004
	2007	2006	2006	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)			
TURNOVER	23,658	13,526	30,685	711	7,076
COST OF SALES	(13,130)	(11,491)	(17,814)	(536)	(6,715)
	10,528	2,035	12,871	175	361
OTHER REVENUE	294	4,225	7,867	3,195	3,273
SELLING AND DISTRIBUTION EXPENSES	–	(417)	–	(43)	(15)
ADMINISTRATIVE EXPENSES	(2,201)	(6,929)	(3,834)	(3,738)	(3,635)
DEPRECIATION FOR PROPERTY, PLANT AND EQUIPMENT	(5,329)	–	(77)	(9,682)	(10,237)
OTHER OPERATING EXPENSES	(2,783)	(557)	(7,624)	(4,050)	(5,289)
PROFIT/(LOSS) FROM OPERATIONS	509	(1,643)	9,203	(14,143)	(15,542)
FINANCE COSTS	(928)	(785)	(1,750)	(1,532)	(548)
PROFIT/(LOSS) BEFORE TAX	(419)	(2,428)	7,453	(15,675)	(16,090)
INCOME TAX EXPENSE	(2,582)	–	(1,972)	–	–
PROFIT/(LOSS) FOR THE PERIOD	(3,001)	(2,428)	5,481	(15,675)	(16,090)
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per Share					
– Basic	(0.42)	(0.34)	0.76	(2.17)	(2.23)
– Diluted	N/A	N/A	0.76	N/A	N/A

## Notes:

- The Group did not have any extraordinary, exceptional items or profits/loss to minority interest and has not declared any dividends for the six months ended 30 June 2007 and the three years ended 31 December 2006.
- No auditors of the Company has issued a qualified audit opinion for the three financial years ended 31 December 2006 save for the qualified opinion issued by the then auditors of the Company Homan CPA Limited on the audited consolidated financial statements of the Company for the financial year ended 31 December 2005.

## CONSOLIDATED BALANCE SHEET

	At at 30 June	At as 31 December		
	2007 HK\$'000 (Unaudited)	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	91,398	96,563	65,475	23,573
Plant and equipment held for proposed capital injection	–	–	–	37,092
Available-for-sale financial assets	146	146	200	830
	<u>91,544</u>	<u>96,709</u>	<u>65,675</u>	<u>61,495</u>
<b>CURRENT ASSETS</b>				
Inventories	11,636	3,483	–	–
Trade and other receivables	29,217	25,095	7,941	5,642
Due from a related company	816	175	18,709	–
Cash and bank balances	1,054	1,199	705	28,592
	<u>42,723</u>	<u>29,952</u>	<u>27,355</u>	<u>34,234</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	(13,847)	(11,596)	(13,551)	12,537
Due to a director	(9,883)	(4,885)	(1,536)	3,533
Due to a related company	–	–	–	2,128
Tax payable	(4,594)	(1,972)	–	–
	<u>(28,234)</u>	<u>(18,453)</u>	<u>(15,087)</u>	<u>18,198</u>
<b>NET CURRENT ASSETS</b>	<u>14,399</u>	<u>11,499</u>	<u>12,268</u>	<u>16,036</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>105,943</u>	<u>108,208</u>	<u>77,943</u>	<u>77,531</u>
<b>NON-CURRENT LIABILITIES</b>				
Convertible bonds	(26,294)	(25,640)	(26,564)	(27,400)
Deferred tax liabilities	(7,876)	(8,927)	(1,956)	–
	<u>(34,170)</u>	<u>(34,567)</u>	<u>(28,520)</u>	<u>(27,400)</u>
<b>NET ASSETS</b>	<u><u>71,773</u></u>	<u><u>73,641</u></u>	<u><u>49,423</u></u>	<u><u>50,131</u></u>
<b>CAPITAL AND RESERVES</b>				
Share capital	7,231	7,231	7,231	7,231
Reserves	64,542	66,410	42,192	42,900
	<u>71,773</u>	<u>73,641</u>	<u>49,423</u>	<u>50,131</u>
<b>TOTAL EQUITY</b>	<u><u>71,773</u></u>	<u><u>73,641</u></u>	<u><u>49,423</u></u>	<u><u>50,131</u></u>

**2. AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2005**

The previous auditors of the Company, Homan CPA Limited, qualified their opinions on the audited consolidated financial statements of the Company for the financial year ended 31 December 2005. The following information is extracted from the auditors' report on the consolidated financial statements of the Company for the financial year ended 31 December 2005 issued by Homan CPA Limited.

TO THE MEMBERS OF  
**INTCERA HIGH TECH GROUP LIMITED**  
*(Incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Intcera High Tech Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") from pages 28 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, the evidence available to us was limited as follows.

**Opening balances**

We are nominated to audit the financial statements of the Group for the year ended 31 December 2005 on 30 March 2006. We did not report on the financial statements of the Group for the year ended 31 December 2004. We are unable to obtain sufficient reliable financial information in respect of the balances as at 1 January 2005. We were unable to carry out audit procedures in respect of the opening net assets of the Group of HK\$50,131,000 as at 1 January 2005. Accordingly, we were unable to satisfy ourselves as to whether there was any material misstatement of the opening balances as at 1 January 2005. It follows that we were also unable to satisfy ourselves that the comparative figures as at 31 December 2004 and for the year then ended are free from material misstatement. Any adjustment to the opening net assets of the Group at 1 January 2005 would have a consequential effect on the result of and cash flows of the Group for the year ended 31 December 2005.

**Carrying value of property, plant and equipment**

The carrying values of the Group's property, plant and equipment as at 31 December 2004 amounted to HK\$60,665,000. Due to the limitation of scope of work regarding on the opening balances as at 1 January 2005, there was no sufficient financial information available for our inspection. In the opinion of the directors, the turnover of the Group is mainly derived from the trading of products for the year ended 31 December 2005. The recoverability of the carrying values of these property, plant and equipment amounted to HK\$50,912,000 as at 31 December 2005 depends upon the ability of the Group to obtain additional financial resources to establish the operations of manufacturing and thereafter, sufficient sales orders to attain profitable and positive cash flow operations, for its operations in the People's Republic of China. However, as more disclosure in note 17 to the financial statements, the Group's plant and machinery were revalued by an independent qualified valuer as at 31 December 2005. There were no other practicable audit procedures that we could adopt to ascertain whether as at 31 December 2005, the carrying value of property, plant and equipment of HK\$50,912,000 and the extent of any depreciation and impairment of these property, plant and equipment for year ended 31 December 2005 were free from material misstatement.

**Receivable from a related company**

As more disclosure in note 24 to the financial statements, the amount of HK\$18,709,000 due from a related company, Shenzhen Weiyi Optical Communication Technology Limited (“Shenzhen Weiyi”) which Mr. Cheng Qing Bo, the Chairman and the substantial shareholder of the Company has beneficial interest. The amount due from Shenzhen Weiyi is unsecured and HK\$9,700,000 was settled in respect thereof up to the date of this report. In the opinion of the directors, the Group is likely to recover the amount of HK\$9,009,000 in full and no allowance for the bad and doubtful debts against the remaining balance is necessary. We are unable to satisfy ourselves as to the nature and propriety of the amount of such advance to Shenzhen Weiyi. In addition, we are impracticable to quantify the amount of the sufficient allowance for bad and doubtful debts to be made and the amount of this allowance which should have been charged to the income statement of the current and prior years. If sufficient allowance had been made, the Group’s loss before tax for the current and prior years would have been reduced by the amount of the allowance relating to the respective years, the Group’s net assets as at 31 December 2005 would have been reduced by the aggregate amount thereof.

**Disposal of a subsidiary**

As disclosed in note 30 to the financial statements, the Group disposed of its entire interest in a subsidiary, 大陶精密科技(深圳)有限公司 (“Shenzhen Intcera”), during the year. As Shenzhen Intcera’s contribution to the loss for the year was HK\$15,000 based on unaudited management accounts for the eleven months ended 30 November 2005, we were unable to satisfy ourselves that these amounts, together with the gain arising on disposal of HK\$19,000, are free from material misstatement. Any adjustments found to be necessary to the above amounts would affect the classification of the consolidated income statement and consolidated cash flow statement. Similarly, we were unable to satisfy ourselves that the analysis of net asset of HK\$935,000 of Shenzhen Intcera at the date of disposal, as disclosed in note 30 to the financial statements, is free from material misstatement.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

**FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN**

In forming our opinion, we have considered the adequacy of the disclosure made in note 5 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 5 to the financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity position. The financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support by the Group's substantial shareholders, the successful completion and outcome of the conversion of convertible bonds of the Group, the availability of additional external funding and the attainment of profitable and positive cash flow operations to meet the Group's future working capital and financial requirements. The financial statements do not include any adjustment that may be necessary should the implementation of such measures to be unsuccessful. We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that this fundamental uncertainty relating to whether going concern basis is appropriate is so extreme that we have disclaimed our opinion.

**DISCLAIMER OF OPINION**

Because of the fundamental uncertainties relating to the carrying value of the property, plant and equipment, receivable from the related company, disposal of a subsidiary and relating to the going concern basis and because of the limitations in the scope of work described in the basis of opinion section of this report, we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work relating to the matters described in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

In respect alone of the limitations on our work relating to opening balances, carrying value of property, plant and equipment, receivable from the related company and disposal of a subsidiary described in the basis of opinion section of this report, we were unable to determine whether proper books and records had been kept.

**Homan CPA Limited***Certified Public Accountants*

Hong Kong

24 April 2006

**Luk Wai Hong**

Practising Certificate Number P03704

**3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The following are the auditors' report on the consolidated financial statements of the Company for the financial year ended 31 December 2006, and the audited consolidated financial statement of the Group for each of the two years ended 31 December 2005 and 2006 together with the relevant notes ("Financial Statements"), as extracted from the Company's annual report for the year ended 31 December 2006.

**TO THE SHAREHOLDERS OF  
INTCERA HIGH TECH GROUP LIMITED**  
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Intcera High Tech Group Limited set out on pages 29 to 71, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **PATRICK NG & COMPANY**

*Certified Public Accountants*

20/F., Hong Kong Trade Centre,

161-167 Des Voeux Road,

Central, Hong Kong,

Hong Kong S.A.R., China

23 October 2007



## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
TURNOVER	5	30,685	711
COST OF SALES		<u>(17,814)</u>	<u>(536)</u>
		12,871	175
OTHER REVENUE	5	7,867	3,195
SELLING AND DISTRIBUTION EXPENSES		–	(43)
ADMINISTRATIVE EXPENSES		(3,834)	(3,738)
DEPRECIATION FOR PROPERTY, PLANT AND EQUIPMENT		(77)	(9,682)
OTHER OPERATING EXPENSES		<u>(7,624)</u>	<u>(4,050)</u>
PROFIT/(LOSS) FROM OPERATIONS	7	9,203	(14,143)
FINANCE COSTS	8	<u>(1,750)</u>	<u>(1,532)</u>
PROFIT/(LOSS) BEFORE TAX		7,453	(15,675)
INCOME TAX EXPENSE	10	<u>(1,972)</u>	<u>–</u>
PROFIT/(LOSS) FOR THE YEAR		<u>5,481</u>	<u>(15,675)</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share	13		
– Basic		<u>0.76</u>	<u>(2.17)</u>
– Diluted		<u>0.76</u>	<u>N/A</u>

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

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>14</i>	96,563	65,475
Available-for-sale financial assets	<i>16</i>	146	200
		<u>96,709</u>	<u>65,675</u>
<b>CURRENT ASSETS</b>			
Inventories	<i>17</i>	3,483	–
Trade and other receivables	<i>19</i>	25,095	7,941
Due from a related company	<i>20</i>	175	18,709
Cash and bank balances	<i>21</i>	1,199	705
		<u>29,952</u>	<u>27,355</u>
<b>TOTAL CURRENT ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>22</i>	(11,596)	(13,551)
Due to a director	<i>23</i>	(4,885)	(1,536)
Tax payable		(1,972)	–
		<u>(18,453)</u>	<u>(15,087)</u>
<b>TOTAL CURRENT LIABILITIES</b>			
<b>NET CURRENT ASSETS</b>			
		<u>11,499</u>	<u>12,268</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>108,208</u>	<u>77,943</u>
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	<i>24</i>	(25,640)	(26,564)
Deferred tax liabilities	<i>25</i>	(8,927)	(1,956)
		<u>(34,567)</u>	<u>(28,520)</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>			
<b>NET ASSETS</b>			
		<u>73,641</u>	<u>49,423</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>26</i>	7,231	7,231
Reserves	<i>27</i>	66,410	42,192
		<u>73,641</u>	<u>49,423</u>
<b>TOTAL EQUITY</b>			
		<u>73,641</u>	<u>49,423</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****COMPANY BALANCE SHEET***As at 31 December 2006*

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Investment in subsidiaries	<i>15</i>	–	–
<b>CURRENT ASSETS</b>			
Due from subsidiaries	<i>18</i>	46,889	58,034
Trade and other receivables	<i>19</i>	10,256	7,200
Due from a related company	<i>20</i>	9,483	9,483
Cash and bank balances	<i>21</i>	2	5
<b>TOTAL CURRENT ASSETS</b>		<u>66,630</u>	<u>74,722</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>22</i>	(5,437)	(10,027)
Due to a director	<i>23</i>	(6,076)	(6,015)
Due to a shareholder	<i>23</i>	(7,000)	(7,000)
<b>TOTAL CURRENT LIABILITIES</b>		<u>(18,513)</u>	<u>(23,042)</u>
<b>NET CURRENT ASSETS</b>		<u>48,117</u>	<u>51,680</u>
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	<i>24</i>	(25,640)	(26,564)
Deferred tax liabilities	<i>25</i>	(550)	(242)
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>(26,190)</u>	<u>(26,806)</u>
<b>NET ASSETS</b>		<u>21,927</u>	<u>24,874</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>26</i>	7,231	7,231
Reserves	<i>27</i>	14,696	17,643
<b>TOTAL EQUITY</b>		<u>21,927</u>	<u>24,874</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Convertible bonds reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total Equity <i>HK\$'000</i>
At 1 January 2005	7,231	61,597	1	-	1,948	(18,698)	52,079
Exchange differences arising on translation of financial statements outside Hong Kong	-	-	18	-	-	-	18
Surplus on revaluation of property, plant and equipment	-	-	-	14,563	-	-	14,563
Deferred tax liability on revaluation of property, plant and equipment	-	-	-	(1,714)	-	-	(1,714)
Reversal of deferred tax liability on the convertible bonds	-	-	-	-	171	-	171
Loss for the year	-	-	-	-	-	(15,675)	(15,675)
Disposal of a subsidiary	-	-	(19)	-	-	-	(19)
At 31 December 2005 and at 1 January 2006	7,231	61,597	-	12,849	2,119	(34,373)	49,423
Exchange differences arising on translation of financial statements outside Hong Kong	-	-	117	-	-	-	117
Fair value adjustment on convertible bonds	-	-	-	-	2,077	-	2,077
Reversal of deferred tax liability on the convertible bonds	-	-	-	-	(308)	-	(308)
Surplus on revaluation of property, plant and equipment	-	-	-	23,514	-	-	23,514
Deferred tax liability on revaluation of property, plant and equipment	-	-	-	(6,663)	-	-	(6,663)
Profit for the year	-	-	-	-	-	5,481	5,481
At 31 December 2006	7,231	61,597	117	29,700	3,888	(28,892)	73,641

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

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit/(loss) before tax	7,453	(15,675)
Adjustments for:		
Finance costs	1,750	1,532
Interest received	(1)	(12)
Depreciation and amortization of property, plant and equipment	77	9,682
Gain on disposal of subsidiary	–	(19)
Impairment in value of club membership	54	630
Loss on disposal of property, plant and equipment	219	46
Allowance for bad and doubtful debts	–	682
Interest on convertible bonds written back	(1,643)	–
<b>Operating on profit/(loss) before changes in working capital</b>	<b>7,909</b>	<b>(3,134)</b>
Increase in inventories	(3,483)	–
Increase in trade and other receivables	(21,154)	(2,981)
Decrease/(increase) in amount due from a related company	18,534	(20,837)
(Decrease)/increase in trade and other payables	(861)	1,014
Increase/(decrease) in amount due from a director	3,349	(1,997)
<b>Net cash generated from/(used in) operating activities</b>	<b>4,294</b>	<b>(27,935)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	1	12
Proceeds on disposal of property, plant and equipment	–	25
Purchase of property, plant and equipment	(3,870)	–
<b>Net cash (used in)/generated from investing activities</b>	<b>(3,869)</b>	<b>37</b>
<b>FINANCING ACTIVITIES</b>		
Interest paid	(48)	(7)
<b>Net cash used in financing activities</b>	<b>(48)</b>	<b>(7)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>377</b>	<b>(27,905)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>705</b>	<b>28,592</b>
Effect of foreign exchange rate changes	117	18
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,199</b>	<b>705</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	1,199	705

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the year ended 31 December 2006*

**1. General**

The Company is incorporated in Cayman Islands as an exempted company with limited liability and its shares are listed on the The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). In December 2005, the Company had been placed in the third stage of delisting procedures pursuant to Practice Note 17 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36.

The consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Group is mainly Hong Kong dollars (“HKD”) which is the same as the presentation currency of the Group.

**2. Application of new and revised Hong Kong Financial Reporting Standards**

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group’s accounting policies nor have affected the amounts reported for the current or prior years.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>(1)</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>(2)</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>(1)</sup>
HKFRS 8	Operating Segments <sup>(2)</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>(3)</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>(4)</sup>
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions <sup>(5)</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>(6)</sup>

(1) *Effective for annual periods beginning on or after 1 January 2007*

(2) *Effective for annual periods beginning on or after 1 January 2009*

(3) *Effective for annual periods beginning on or after 1 June 2006*

(4) *Effective for annual periods beginning on or after 1 November 2006*

(5) *Effective for annual periods beginning on or after 1 March 2006*

(6) *Effective for annual periods beginning on or after 1 January 2008*

### 3. Significant accounting policies

#### (a) *Statement of compliance*

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

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

The consolidated financial statements have been prepared on the historical cost basis, except for property, plant and equipment and financial instruments, which are measured at fair value.

*(c) Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year made up to 31 December 2006.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

*(d) Subsidiary*

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



**(e) Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**(f) Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.
- (ii) Rental income under operating leases is recognized on a straight-line basis over the term of the relevant lease.
- (iii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

- (iv) Dividend income is recognized when the shareholder's right to receive payment is established.
- (v) Royalty income is recognized on a time proportion basis accordance with the terms and conditions of the royalty agreement.

**(g) *Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognized in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefit received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**(h) *Foreign currencies***

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**(i) *Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(j) *Employee benefits***

**(i) *Employee leave entitlements***

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leaves are not recognized until the time of leave.

**(ii) *Retirement benefit costs***

The Group's contributions to the defined contribution retirement scheme set up pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPF" Scheme) for all qualifying employees are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iii) *Share – based payments*

The Group operates equity-settled share-based payments to directors, employees and other parties.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in a capital reserve within equity, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(k) ***Taxation***

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

*(1) Property, plant and equipment*

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:

Leasehold improvements	33 $\frac{1}{3}$ %
Plant and machinery	11%
Furniture, fixtures and office equipment	20% – 33%
Motor vehicles	25%

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent derecognition of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognized.

*(m) Impairment of tangible and intangible assets excluding goodwill*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) *Financial instruments*

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) *Trade receivables*

Trade receivables are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) *Investments*

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.



Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iv) *Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(v) *Convertible bonds*

Convertible bonds that consist of a liability and an equity components are regarded as compound instruments. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity (capital reserves).

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

*(vi) Trade payables*

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

*(vii) Equity instruments*

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

*(o) Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

*(p) Provisions and contingent liabilities*

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(q) *Related parties***

A party is considered to be related to the Group if:

- (i) The party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;
- (ii) The party is an associate;
- (iii) The party is a jointly-controlled entity;
- (iv) The party is a member of the key management personnel of the Group or its parent;
- (v) The party is a close member of the family of any individual referred to in (i) or (iv); or
- (vi) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides, with directly or indirectly, any individual referred to in (iv) or (v).

*(r) Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowing, tax balances, corporate and financing expenses.

#### 4. Critical accounting estimates and judgements

In preparing these consolidated financial statements, management is required to exercise significant judgements in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgements and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

##### *Estimated recoverability of trade and other receivables*

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provision at each balance sheet date.

##### *Property, plant and equipment*

The Group's management determines the estimated useful lives and residual values for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategy assets that have been abandoned or sold.

The Group's plant and machinery included in the property, plant and equipment of HK\$96,500,000 were stated at fair market value in accordance with the accounting policy stated in note 3. The fair market value of plant and machinery included in the property, plant and equipment are determined by GA Appraisal Limited, a firm of independent property valuers and the fair value of property, plant and equipment as at respective year end were set out in note 14. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalization rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

*Income tax*

The Group is subject to income taxes in Hong Kong and PRC jurisdictions. Recognition of deferred tax assets, which principally related to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilized. The outcome of their actual utilization may be different.

**5. Revenue**

(a) An analysis of the Group's turnover for the year is as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Sales of goods	<u>30,685</u>	<u>711</u>

(b) An analysis of the Group's other revenue for the year is as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Bank interest income	1	12
Gain on disposal of a subsidiary	–	19
Interest on convertible bonds written back	1,643	–
Rental income	5,000	–
Royalty fee	–	3,119
Sundry income	<u>1,223</u>	<u>45</u>
	<u>7,867</u>	<u>3,195</u>

## 6. Business and geographical segments

### (i) Business segments

The following continuing operations are the basis on which the Group reports its primary segment information. There are no sales or other transactions between the business segments.

#### Income statement

	<b>Manufacturing and trading of ceramic blanks and ferrules</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	30,685	711
Segment results	14,107	(1,026)
Unallocated corporate income	2,173	3,150
Unallocated corporate expenses	(7,077)	(16,267)
Finance costs	(1,750)	(1,532)
Income tax expense	(1,972)	–
<b>Profit/(loss) for the year</b>	<b>5,481</b>	<b>(15,675)</b>

#### Other information

	<b>Manufacturing and trading of ceramic blanks and ferrules</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure	651	–
Depreciation	–	231
Impairment loss on trade receivables	–	–

**Balance sheet**

	<b>Manufacturing and trading of ceramic blanks and ferrules</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets</b>		
Segment assets	53,166	2,695
Unallocated assets	73,495	90,335
	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b><u>126,661</u></b>	<b><u>93,030</u></b>
<b>Liabilities</b>		
Segment liabilities	1,818	6,273
Unallocated liabilities	51,202	37,334
	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<b><u>53,020</u></b>	<b><u>43,607</u></b>

**(ii) Geographical segments**

No geographical segment information of the Group is shown as the Group's operations, turnover by geographical market and assets are wholly located in Hong Kong and the People's Republic of China ("PRC").



**7. Profit/(loss) from operations**

Profit/(loss) from operations of the Group has been arrived at after charging the followings:

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs (including directors' remuneration – <i>note 9</i> ):		
Salaries and allowances	4,205	2,029
Mandatory provident fund contributions	152	58
	<u>4,357</u>	<u>2,087</u>
Depreciation for property, plant and equipment	77	9,682
Auditors' remuneration		
– current year	600	650
– underprovision in prior year	–	100
	<u>600</u>	<u>750</u>
Allowance for bad and doubtful debts	–	682
Cost of inventories recognized as expenses	17,814	536
Impairment for club debenture	54	630
Loss on disposal of property, plant and equipment	219	46
Operating lease rentals in respect of land and buildings	<u>1,241</u>	<u>376</u>

**8. Finance costs**

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings wholly repayable within 5 years	–	7
Interest on convertible bonds	1,702	1,525
Other interest	48	–
	<u>1,750</u>	<u>1,532</u>

## 9. Directors' and five highest paid employees' emoluments

## (i) Directors' emoluments

2006

	Other emoluments			Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	MPF contribution HK\$'000	
<b>Executive Directors</b>				
Cheng Qing Bo	96	–	–	96
Wong Hon Kit ( <i>note i</i> )	324	140	–	464
Li Fang	96	–	–	96
<b>Non-executive Director</b>				
Lin Nan	84	–	–	84
<b>Independent Non-executive Directors</b>				
Liu Zheng Hao	20	–	–	20
Lo Kin Chung ( <i>note ii</i> )	78	–	–	78
Woo Man Wah ( <i>note iii</i> )	78	–	–	78
Wan Ho Yuen Terence ( <i>note iv</i> )	25	–	–	25
Tam B Ray Billy ( <i>note v</i> )	100	–	–	100
	901	140	–	1,041
	901	140	–	1,041

Note:

- i) Mr. Wong Hon Kit resigned on 31 December 2006.
- ii) Mr. Lo Kin Chung appointed on 22 March 2006 and resigned on 31 March 2007.
- iii) Ms. Woo Man Wah appointed on 22 March 2006 and resigned on 5 February 2007.
- iv) Mr. Wan Ho Yuen Terence resigned on 23 March 2006.
- v) Mr. Tam B Ray Billy resigned on 31 December 2006.

## 2005

	Other emoluments			Total HK\$'000
	Fees	Salaries and other benefits	MPF contribution	
	HK\$'000	HK\$'000	HK\$'000	
<b>Executive Directors</b>				
Cheng Qing Bo	96	–	–	96
Wong Hon Kit ( <i>note i</i> )	203	117	–	320
Tung Tai Yung ( <i>note ii</i> )	32	–	–	32
Li Fang	63	–	–	63
Hu Xue Jun ( <i>note iii</i> )	32	–	–	32
King Chun Kong, Karl ( <i>note iii</i> )	32	–	–	32
<b>Non-executive Directors</b>				
Lin Nan	180	–	–	180
Hu Shiang-Chi ( <i>note iii</i> )	32	–	–	32
<b>Independent Non-executive Directors</b>				
Lai Kin Wai ( <i>note iii</i> )	21	–	–	21
Wu Min ( <i>note iii</i> )	32	–	–	32
Liu Zheng Hao	20	–	–	20
Wan Ho Yuen, Terence	66	–	–	66
Tam B Ray Billy	66	–	–	66
	875	117	–	992
	875	117	–	992

*Note:*

- i) Mr. Wong Hon Kit appointed on 29 April 2005.
- ii) Mr. Tung Tai Yung resigned on 1 May 2005.
- iii) Mr. Hu Xue Jun, Mr. King Chun Kong, Karl, Mr. Hu Shiang-Chi, Mr. Lai Kin Wai, Mr. Wu Min resigned on 29 April 2005.

During the two years ended 31 December 2006, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments for the two years ended 31 December 2006, except, on 31 March 2005, Mr. Tung Tai Yung has waived his right of 600,000 options at the exercise price of HK\$0.731, which granted on 20 July 2000.

During the year, no share option was granted to the directors.

*(ii) Five highest paid employees*

During the year, the five highest paid individuals included three directors (2005: two), details of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	342	466
Retirement benefits scheme contributions	8	–
	<u>350</u>	<u>466</u>
	-----	-----

Emoluments of the non-director highest paid individuals fell within the following bands:

	<b>Number of individuals</b>	
	<b>2006</b>	<b>2005</b>
HK\$Nil to HK\$1,000,000	<u>2</u>	<u>3</u>

**10. Income tax expense**

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in or derived from Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The taxation on the Group's profit/ (loss) for the year differs from the theoretical amount that would arise using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rates are as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Profit/(loss) before tax	<u>7,453</u>	<u>(15,675)</u>
Taxation at the notional rate	2,241	(2,743)
Tax effect of income not taxable	(1,431)	(552)
Tax effect of expenses not deductible for taxation purpose	–	2,190
Tax effect of estimated tax losses not recognized for the year	<u>1,162</u>	<u>1,105</u>
	<u>1,972</u>	<u>–</u>

**11. Disposal of subsidiaries**

On 30 November 2005, the Group disposed its wholly-owned subsidiary, 大陶精密科技(深圳)有限公司 at the consideration of HK\$1 and the settlement of amount due from an immediate holding company. The net assets of 大陶精密科技(深圳)有限公司 at the date of disposal was as follows:

	<b>2005</b> <i>HK\$'000</i>
Amount due from an immediate holding company	935
Net assets disposed of	935
Translation reserve realized	(19)
Gain on disposals of subsidiary	19
Total consideration	935
Satisfied by:	
Cash	–
Amount due from an immediately holding company	935
	935
Cash outflow arising on disposal:	
Cash consideration received	–
Cash and cash equivalents disposed of	–
	–

The subsidiary disposed during the year ended 31 December 2005 did not contribute significantly to the turnover, operating results or cash flows of the Group.

**12. Dividend**

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2005: Nil)

**13. Earnings/(loss) per share**

The basic earnings/(loss) per share is calculated based on the profit/(loss) attributable to shareholders of HK\$5,481,000 (2005: loss HK\$15,675,000) and the weighted average number of 723,087,310 (2005: 723,087,310) ordinary shares in issue during the year.

The diluted earnings per share for the years ended 31 December 2006 and 31 December 2005 has not been disclosed as the exercise price of the Company's convertible bonds were higher than the average market price for shares and there was no outstanding share option.

**14. Property, plant and equipment****Group**

	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office Equipment <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At 1 January 2005	1,331	26,741	1,324	104	29,500
Transfer	–	58,982	–	–	58,982
Disposal	–	–	–	(104)	(104)
Adjustment on valuation	–	(20,337)	–	–	(20,337)
At 31 December 2005 and at 1 January 2006	1,331	65,386	1,324	–	68,041
Additions	37	7,819	14	–	7,870
Disposal	(117)	(219)	–	–	(336)
Adjustment on valuation	–	23,514	–	–	23,514
At 31 December 2006	1,251	96,500	1,338	–	99,089
Comprising					
At cost	1,251	–	1,338	–	2,589
At valuation – 2006	–	96,500	–	–	96,500
	1,251	96,500	1,338	–	99,089

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	<b>Leasehold improvements</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and office Equipment</b>	<b>Motor vehicle</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accumulated depreciation and impairment losses					
At 1 January 2005	1,258	3,467	1,178	24	5,927
Charge for the year	39	2,990	91	9	3,129
Written back on disposal	–	–	–	(33)	(33)
Transfer	–	28,443	–	–	28,443
Adjustment on valuation	–	(34,900)	–	–	(34,900)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2005 and at 1 January 2006	1,297	–	1,269	–	2,566
Charge for the year	36	–	41	–	77
Written back on disposal	(117)	–	–	–	(117)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2006	1,216	–	1,310	–	2,526
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net carrying amount					
At 31 December 2006	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>
At 31 December 2005	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>

The Group's property, plant and equipment were revalued at HK\$96,500,000 as at 31 December 2006 (2005: 65,386,000) by GA Appraisal Limited, independent qualified valuers, by using fair market value.



## 15. Investment in subsidiaries

	<b>Company</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	16	16
<i>Less:</i> impairment losses	(16)	(16)
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
	–	–
	<u>          </u>	<u>          </u>

Details of principal subsidiaries as at 31 December 2006, which materially affected the Group's results or net assets, are set out in note 36.

## 16. Available-for-sale financial assets

Available-for-sale financial asset represents club debenture held by a subsidiary and is stated at cost less any accumulated impairment losses, and is tested annually for impairment.

	<b>Group</b>
	<i>HK\$'000</i>
Cost	
At 1 January 2005, 31 December 2005 and at 31 December 2006	<u>          830</u>
Amortisation and impairment	
At 1 January 2005	–
Impairment	<u>          630</u>
At 31 December 2005 and at 1 January 2006	630
Impairment	<u>          54</u>
At 31 December 2006	<u>          684</u>
Net carrying amounts	
At 31 December 2006	<u>          146</u>
At 31 December 2005	<u>          200</u>

**17. Inventories**

Inventories comprises of:-

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	1,872	–
Work in progress	80	–
Finished goods	1,531	–
	<u>3,483</u>	<u>–</u>

**18. Due from subsidiaries**

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

**19. Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	8,905	–	–	–
Other receivables, deposits and prepayment	16,190	7,941	10,256	7,200
	<u>25,095</u>	<u>7,941</u>	<u>10,256</u>	<u>7,200</u>

The aging analysis of trade receivables is as follows

	Group		Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	2,733	–	–	–
31 to 90 days	3,339	–	–	–
91 to 180 days	1,664	–	–	–
Over 180 days	1,169	–	–	–
	<u>8,905</u>	<u>–</u>	<u>–</u>	<u>–</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

## 20. Due from a related company

Particulars of the mount due from a related company of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows

### The Group

Name of related company	At	At	At	Maximum amount Outstanding during the year	
	31 December 2006	31 December 2005	1 January 2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Shenzhen Weiyi Optical Communication Technology Limited	175	18,709	–	18,709	18,709
	<u>175</u>	<u>18,709</u>	<u>–</u>	<u>18,709</u>	<u>18,709</u>

## The Company

Name of related company	At	At	At	Maximum amount Outstanding	
	31 December 2006 <i>HK\$'000</i>	31 December 2005 <i>HK\$'000</i>	1 January 2005 <i>HK\$'000</i>	during the year	
				2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Shenzhen Weiyi Optical Communication Technology Limited	9,483	9,483	–	9,483	9,483

The amount due from a related company is unsecured, interest free and has no fixed terms of repayment.

Weiyi is controlled by Mr. Cheng Qing Bo, the Chairman and executive director as well as the substantial shareholder of the Company.

**21. Cash and bank balances**

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

**22. Trade and other payables**

	Group		Company	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Trade payables	1,134	470	–	–
Temporary deposits, accruals and other payables	10,462	13,081	5,437	10,027
	<u>11,596</u>	<u>13,551</u>	<u>5,437</u>	<u>10,027</u>

The aging analysis of trade payable is as follows:–

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	601	130	–	–
31 to 90 days	468	1	–	–
91 to 180 days	65	–	–	–
Over 360 days	–	339	–	–
	<u>1,134</u>	<u>470</u>	<u>–</u>	<u>–</u>

The directors consider that the carrying amount of trade and other payables approximates their fair value.

### 23. Due to a director/a shareholder

The amount due to a director/a shareholder is unsecured, interest free and has no fixed terms of repayment.

### 24. Convertible bonds

On 31 October 2002, the Company issued convertible bonds (the “Convertible Bonds”) with principal amount of HK\$27,400,000 which were originally due and mature on 31 October 2003. The Company will repay the principal amount outstanding under the Convertible Bonds to the bondholders together with interest accrued thereon up to and including the date of actual repayment upon maturity. The Convertible Bonds bear interest at a rate of 2% per annum on the aggregate principal amount outstanding from time to time. The interest is payable yearly in arrears on 31 December in each year. The Convertible Bonds carry the rights to convert, at the discretion of the bondholders, either in whole or in part of the principal amount into ordinary shares of the Company at the initial conversion price of HK\$0.17 per share (subject to adjustments), from 1 November 2002 to the maturity date of 31 October 2003.

On 1 November 2003, the Company entered into agreements with the bondholders to extend the maturity date to 31 October 2005, with the existing terms and conditions remained unchanged.

On 28 December 2004, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2006, with the existing terms and conditions remained unchanged.

On 26 December 2005, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2007, with the existing terms and conditions remained unchanged. Accordingly, the amount is classified as non-current at 31 December 2005.

On 31 July 2006, the Company entered into agreements with the bondholders to extend the maturity date to 30 June 2008, with the existing terms and conditions remained unchanged. Accordingly, the amount is classified as non-current at 31 December 2006.

On 28 September 2007, the Company entered into agreements with the bondholders to extend the maturity date to 31 December 2009, with the existing terms and conditions remained unchanged.

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Liability component at the beginning of the year	26,564	25,039
Interest expenses	1,702	1,525
Fair value adjustments	(2,077)	–
Interest waived	(549)	–
	<u>25,640</u>	<u>26,564</u>
Liability component at the end of the year	<u><u>25,640</u></u>	<u><u>26,564</u></u>

The interest charged for the year is calculated by applying an effective interest rate of 7.24% per cent (2005: 6.09%) to the liability component for the year since the convertible bonds were issued.

The directors estimate the fair value of the liability component of the convertible bonds at 31 December 2006 to be approximately HK\$25.6 million (2005: HK\$26.5 million). This fair value has been calculated by discounting the future cash flows at the market rate.

## 25. Deferred tax liabilities

## The Group

	Accelerated tax depreciation <i>HK\$'000</i>	Convertible bonds-equity component <i>HK\$'000</i>	Revaluation of plant and equipment <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	178	413	–	(178)	413
Charge (credit) to the profit or loss for the year	5,310	–	–	(5,310)	–
Charge to equity for the year	–	(171)	1,714	–	1,543
At 31 December 2005 and at 1 January 2006	5,488	242	1,714	(5,488)	1,956
Charge to equity for the year	–	308	6,663	–	6,971
At 31 December 2006	<u>5,488</u>	<u>550</u>	<u>8,377</u>	<u>(5,488)</u>	<u>8,927</u>

The following is the analysis of the deferred tax balances (after offset) for balance sheet purposes:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Deferred tax liabilities	14,415	7,444
Deferred tax assets	(5,488)	(5,488)
	<u>8,927</u>	<u>1,956</u>

At the balance sheet date, the Group has unused tax losses of HK\$72,051,000 (2005: 72,051,000) available for offset against future profits. A deferred tax asset has been recognized in respect of HK\$31,363,000 (2005: HK\$31,363,000) of such losses. No deferred tax asset has been recognized in respect of the remaining HK\$40,688,000 (2005: HK\$40,688,000) due to the unpredictability of future profits streams. All losses may be carried forward indefinitely subject to the approvals of tax authorities in respective jurisdictions.

**The Company**

	<b>Convertible bonds-equity component</b> <i>HK\$'000</i>
At 1 January 2005	413
Credit to equity for the year	(171)
At 31 December 2005 and at 1 January 2006	242
Charge to equity for the year	308
At 31 December 2006	<u>550</u>
<b>26. Share capital</b>	

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
<i>Authorised:</i>		
At 1 January, 2005, at 31 December 2005 and at 31 December 2006	<u>50,000,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each		
At 1 January 2005, at 31 December 2005 and at 31 December 2006	<u>723,087,310</u>	<u>7,231</u>



## 27. Reserves

## Group

	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Convertible bonds reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	61,597	1	–	1,948	(18,698)	44,848
Exchange differences arising on translation of financial statements outside Hong Kong	–	18	–	–	–	18
Surplus on revaluation of property, plant and equipment	–	–	14,563	–	–	14,563
Deferred tax liability on revaluation of property, plant and equipment	–	–	(1,714)	–	–	(1,714)
Reversal of deferred tax liability on the convertible bonds	–	–	–	171	–	171
Loss for the year	–	–	–	–	(15,675)	(15,675)
Disposal of a subsidiary	–	(19)	–	–	–	(19)
At 31 December 2005 and at 1 January 2006	61,597	–	12,849	2,119	(34,373)	42,192
Exchange differences arising on translation of financial statements outside Hong Kong	–	117	–	–	–	117
Fair value adjustment on convertible bonds	–	–	–	2,077	–	2,077
Surplus on revaluation of property, plant and equipment	–	–	23,514	–	–	23,514
Reversal of deferred tax liability on the convertible bonds	–	–	–	(308)	–	(308)
Deferred tax liability on revaluation of property, plant and equipment	–	–	(6,663)	–	–	(6,663)
Profit for the year	–	–	–	–	5,481	5,481
At 31 December 2006	61,597	117	29,700	3,888	(28,892)	66,410

## Company

	Share premium <i>HK\$'000</i>	Convertible notes reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	61,597	1,948	(39,319)	24,226
Reversal of deferred tax liability on the convertible bonds	–	171	–	171
Loss for the year	–	–	(6,754)	(6,754)
At 31 December 2005 and at 1 January 2006	61,597	2,119	(46,073)	17,643
Fair value adjustment on convertible bonds	–	2,077	–	2,077
Reversal of deferred tax liability on the convertible bonds	–	(308)	–	(308)
Loss for the year	–	–	(4,716)	(4,716)
At 31 December 2006	<u>61,597</u>	<u>3,888</u>	<u>(50,789)</u>	<u>14,696</u>

**28. Share options scheme**

Pursuant to an ordinary resolution passed on 29 April, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the “2002 Share Option Scheme”)

According to the 2002 Share Option Scheme, the Board of the Company may grant options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contributed to the Group, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted.

Options granted should be accepted within 3 business days from the date of grant. The total number of shares in respect of which options may be granted under the 2002 Share Option Scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's share capital or with a value in excess of HK\$5 million must be approved in advanced by the Company's shareholders.

The directors may at its absolute discretion determine the period during which option may be exercised, such period to expire not later than 10 years from the date of grant of the option. No option may be granted more than 10 years after the date of approval of the 2002 Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board's meeting, the 2002 Share Option Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2002 Share Option Scheme. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the share.

No options were granted during the year under the 2002 Share Option Scheme since its adoption. The 2002 Share Option Scheme will expire on 28 April 2012.

## 29. Connected and related party disclosures

During the year, the group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the GEM Listing Rules. The transactions during the year and balances with them at the balance sheet, are as follows:

(a) Transactions with connected or related parties:

Name of party	Nature of transactions	2006	2005
		HK\$'000	HK\$'000
Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") (note i)	Sales made by the Group (note ii)	–	553
	Royalty fee received by the Group (note iii)	–	3,119
	Purchase of plant and equipment (note iv)	15,000	–
		15,000	–

It is opined that the above transactions were entered into on normal commercial terms.

*Notes:*

- i Weiyi is controlled by Mr. Cheng Qing Bo, the Chairman and executive director as well as the substantial shareholder of the Company
  - ii These transactions were carried out with reference to market price or, where no market price was available, at terms determined and agreed by both parties.
  - iii The Royalty were charge in accordance with the relevant royalty agreed by both parties.
  - iv The purchase price was set out in the sale and purchase agreement agreed by both parties.
- (b) Compensation of key management personnel of the Group.

During the year, there are three key personnel of the Group being executive directors of the Group. Details of remuneration and related benefits are disclosed in note 9.

- (c) Details of the balances with related parties are set out on the balance sheets and note 20. The amounts outstanding are unsecured, interest free and repayable on demand . No guarantees have been given or received. No expense has been recognized in the year for bad or doubtful debts in respect of the amount owed by related parties.

### 30. Litigation

On 19 January 2004, a winding up petition was filed against the Company by certain ex-senior employees of the Group claiming for payment in the sum of approximately HK\$594,000 from the Company in respect of an award/order dated 20 October 2003 granted by the Labour Tribunal in respect of the severance and bonus dispute between the Company and the ex-senior employees. The unsettled amounts of HK\$594,000 not yet paid up to 31 December 2006 were fully accrued in trade and other payables at the year ended 31 December 2005.

**31. Operating lease arrangements***The Group as lessee*

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating lease, which fall due as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Within one year	504	313
In the second to fifth year inclusive	—	—
	<u>504</u>	<u>313</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Lease is negotiated for fixed term of one year.

*The Group as lessor*

The Group rents out its club debenture under operating leases. The leases are negotiated for a term of two years. The rental income is HK\$36,000 per year.

At the balance sheet date, the Group had contracted with lessee for the following future minimum lease payments:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Within one year	5	23
In the second to fifth year inclusive	36	4
	<u>41</u>	<u>27</u>

**32. Capital commitments**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commitments for acquisition of property, plant and equipments	–	451
	<u>          </u>	<u>          </u>

**33. Retirement benefit schemes**

The Group operates a MPF Scheme for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. The Group contributes a certain percentage of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions

**34. Financial risk management objectives and policies**

The Group is exposed to a variety of financial risks which result from its operating and investing activities.

Management regularly manage the financial risks of the Group. Because of the simplicity of the financial structure and the current operation of the Group, no major hedging activities are undertaken by management.

The most significant financial risks to which the Group is exposed to are as follows:–

**(a) Foreign exchange risk**

The Group has adopted the Hong Kong dollar as its functional and presentation currency. A subsidiary is operated in the People's Republic of China (the "PRC"), and is therefore exposed to foreign exchange risk. However in view of the stable currency policies adopted by the PRC government, the directors consider that the foreign exchange risk is insignificant.

The Group currently does not have a foreign exchange rate hedging policy in respect of commercial transactions denominated in foreign currencies. However, the directors monitors exchange rate exposure and will consider hedging significant exchange rate exposure should the need arise.

**(b) Credit risk**

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2006 in relation to each class of recognized financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables and amounts due from subsidiaries. In order to minimize credit risk, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognized for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks of good standing.

At the balance sheet date, the Group has no significant concentration of credit risk.

**35. Events after year-end date**

On 7 September 2007, the Company entered into the subscription agreement pursuant to which the subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue and allot 3,542,000,000 Shares at a price of HK\$0.01 per Share. Completion of the subscription agreement is conditional upon, among other terms and conditions as set forth therein, a proposal for the resumption in trading of the Shares on the Stock Exchange having been approved by the Stock Exchange.

On 7 September 2007, the Company and the Placing Agent entered into a conditional Placing Agreement pursuant to which the Placing Agent has agreed to place, on a fully underwritten basis, 458,000,000 Placing Shares to Independent Third Parties at HK\$0.01 per Placing Share. The Placing Shares represent approximately 9.7% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Placing Shares.

Immediately following the Completion of the subscription, the subscriber will be interested in 3,542,000,000 Shares, which represent:

- (a) approximately 83.0% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares; and
- (b) approximately 75.0% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Placing Shares.

The Subscriber will make an application to the Executive for the granting of the Whitewash Waiver and if so granted, it will be subject to, among other things, approval by the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver at the EGM where voting on each of the relevant resolutions in respect thereof shall be decided by way of a poll.

Details of subscription, placing of new shares and whitewash waiver application are set out in the announcement of the Company dated 24 September 2007.

### 36. Particulars of principal subsidiaries

Company	Place of incorporation/ operation	Issue and paid up capital	Attributable percentage of shares held		Class of shares held	Principal activities
			Directly	Indirectly		
Optical Crystal (BVI) Limited	British Virgin Islands ("BVI")	US\$1,000	100	–	Ordinary	Investment holding
Opcom Holdings (BVI) Limited	BVI	US\$1,000	100	–	Ordinary	Investment holding
Intcera High Tech (BVI) Limited	BVI	US\$100	100	–	Ordinary	Investment holding
Great Route Limited	Hong Kong	HK\$100	–	100	Ordinary	Investment holding
Aoptic (BVI) Inc.	BVI	US\$10	–	100	Ordinary	Investment holding
Optical Connx Company Limited	Hong Kong	HK\$100	–	100	Ordinary	Trading of ceramic blanks and ferrules in the PRC and Hong Kong
Intcera High Tech (HK) Limited	Hong Kong	HK\$100	–	100	Ordinary	Investment holding and provision of management services in Hong Kong
Rich Palace Limited	BVI	US\$1	–	100	Ordinary	Investment holding



None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

**37. Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's accounts presentation.

**38. Approval of accounts**

The consolidated financial statements were approved and authorized for issue by the board of directors on 23 October 2007.

## 4. UNAUDITED INTERIM RESULTS

The following is the unaudited consolidated results of the Group for the six months ended 30 June 2007 extracted from the relevant interim report of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30 June</b>	
		<b>2007</b>	<b>2006</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	23,658	13,526
Cost of sales		(13,130)	(11,491)
Gross profit		10,528	2,035
Other revenue	3	294	4,225
Selling and distribution expenses		–	(417)
Administrative expenses		(2,201)	(6,929)
Depreciation for property, plant and equipments		(5,329)	–
Other operating expenses		(2,783)	(557)
Profit/(loss) from operations		509	(1,643)
Finance costs	5	(928)	(785)
Profit/(loss) before tax		(419)	(2,428)
Income tax expense	6	(2,582)	–
Profit/(loss) for the period		(3,001)	(2,428)
Dividend	7	–	–
Earnings/(loss) per share	8	<i>HK cents</i>	<i>HK cents</i>
Basic		(0.42)	(0.34)
Diluted		N/A	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	<i>Notes</i>	<b>30 June 2007</b> <i>HK\$'000</i> (Unaudited)	<b>31 December 2006</b> <i>HK\$'000</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	91,398	96,563
Available-for-sale financial assets		146	146
		<u>91,544</u>	<u>96,709</u>
<b>CURRENT ASSETS</b>			
Inventories	10	11,636	3,483
Trade and other receivables	11	29,217	25,095
Due from a related company		816	175
Cash and bank balances		1,054	1,199
		<u>42,723</u>	<u>29,952</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	(13,847)	(11,596)
Due to a director		(9,883)	(4,885)
Tax payable		(4,594)	(1,972)
		<u>(28,324)</u>	<u>(18,453)</u>
<b>NET CURRENT ASSETS</b>			
		<u>14,399</u>	<u>11,499</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>105,943</u>	<u>108,208</u>
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds		(26,294)	(25,640)
Deferred tax liabilities		(7,876)	(8,927)
		<u>(34,170)</u>	<u>(34,567)</u>
<b>NET ASSETS</b>			
		<u>71,773</u>	<u>73,641</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	7,231	7,231
Reserves		64,542	66,410
		<u>71,773</u>	<u>73,641</u>
<b>TOTAL EQUITY</b>			
		<u>71,773</u>	<u>73,641</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Share capital	Share premium	Translation reserve	Revaluation reserve	Convertible bonds reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006 (audited)	7,231	61,597	-	12,849	2,119	(34,373)	49,423
Surplus on revaluation of property, plant and equipment	-	-	-	24,866	-	-	24,866
Loss for the period	-	-	-	-	-	(2,428)	(2,428)
At 30 June 2006 (unaudited)	<u>7,231</u>	<u>61,597</u>	<u>-</u>	<u>37,715</u>	<u>2,119</u>	<u>(36,801)</u>	<u>71,861</u>
At 1 January 2007 (audited)	7,231	61,597	117	29,700	3,888	(28,892)	73,641
Exchange differences arising on translation of financial statement outside Hong Kong	-	-	82	-	-	-	82
Reversal of deferred tax liability on convertible bonds	-	-	-	-	(115)	-	(115)
Deferred tax liability on revaluation of property, plant and equipment	-	-	-	1,166	-	-	1,166
Loss for the period	-	-	-	-	-	(3,001)	(3,001)
At 30 June 2007 (unaudited)	<u>7,231</u>	<u>61,597</u>	<u>199</u>	<u>30,866</u>	<u>3,773</u>	<u>(31,893)</u>	<u>71,773</u>

In the opinion of the directors, the revaluation reserve and convertible bonds reserve are not available for distribution to the Company's shareholders.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	<b>Six months ended 30 June 2007</b>	<b>Six months ended 30 June 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash inflow/(outflow) from operating activities	(77)	3,414
Net cash outflow from investing activities	(150)	–
Net cash inflow from financing activities	–	5,000
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	(227)	8,414
Cash and cash equivalents at the beginning of the period	1,199	705
Effect of foreign exchange rate changes	82	–
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>1,054</u>	<u>9,119</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>1,054</u>	<u>9,119</u>

*Notes***1. Basis of presentation**

The unaudited consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. In addition, the unaudited consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance. They are prepared under the historical cost convention as modified for the revaluation of certain property, plant and equipment and financial instruments.

The accounting policies adopted in preparing the unaudited consolidated results for the six months ended 30 June 2007 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

**2. Application of new and revised Hong Kong Financial Reporting Standards**

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior periods.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Cost <sup>(1)</sup>
HKFRS 8	Operating Segments <sup>(1)</sup>
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions <sup>(2)</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>(3)</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>(4)</sup>
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>(3)</sup>

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

<sup>(2)</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>(3)</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>(4)</sup> Effective for annual periods beginning on or after 1 July 2008

## 3. Revenue

- (a) An analysis of the Group's turnover for the three months ended and the six months ended is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales of goods	14,537	9,870	23,658	13,526

- (b) An analysis of the Group's other revenue for the three months ended and the six months ended is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Bank interest income	1	1	1	1
Interest on convertible bonds written back	137	3,373	274	3,373
Rental income	–	79	–	79
Sundry income	–	772	19	772
	<u>138</u>	<u>4,225</u>	<u>294</u>	<u>4,225</u>

#### 4. Business and geographical segments

##### (i) *Business segments*

The following continuing operations are the basis on which the Group reports its primary segment information. There are no sales or other transactions between the business segments.

##### **Income statement**

	<b>Manufacturing and trading of ceramic blanks and ferrules</b>	
	<b>Six months ended 30 June 2007 <i>HK\$'000</i> (Unaudited)</b>	<b>Six months ended 30 June 2006 <i>HK\$'000</i> (Unaudited)</b>
Revenue	23,658	13,526
Segment results	7,748	494
Unallocated corporate income	294	4,225
Unallocated corporate expenses	(7,532)	(6,362)
Finance costs	(928)	(785)
Income tax expense	(2,583)	–
Loss for the period	<u>(3,001)</u>	<u>(2,428)</u>



**Other information**

	<b>Manufacturing and trading of ceramic blanks and ferrules</b>	
	<b>Six months ended 30 June 2007</b>	<b>Six months ended 30 June 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Capital expenditure	–	15,000
Depreciation	5,308	1,993
Impairment loss on trade receivables	–	–
	<u>–</u>	<u>–</u>

**Balance sheet**

	<b>Manufacturing and trading of ceramic blanks and ferrules</b>	
	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
<b>Assets</b>		
Segment assets	65,093	48,818
Unallocated assets	69,174	80,335
	<u>134,267</u>	<u>129,153</u>
<b>Total assets</b>		
<b>Liabilities</b>		
Segment liabilities	9,678	23,456
Unallocated liabilities	52,816	33,836
	<u>62,494</u>	<u>57,292</u>
<b>Total liabilities</b>		

*(ii) Geographical segments*

No geographical segment information of the Group is shown as the Group's operations, turnover by geographical market and assets are wholly located in Hong Kong and the People's Republic of China ("PRC").

**5. Finance costs**

	Three months ended 30 June		Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Interest on convertible bonds	464	409	928	785

**6. Income tax expense**

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in or derived from Hong Kong during the three months ended and the six months ended 30 June 2007 (the three months ended and six months ended 30 June 2006: Nil). Taxes on profits assessable elsewhere have calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The taxation on the Group's profit/(loss) for the period differs from the theoretical amount that would arise using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rates are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Profit/(loss) before tax	853	794	(419)	(2,428)
Taxation at the notional rate	1,445	580	2,082	(1,102)
Tax effect of estimated tax profit/(loss) not recognized for the period	304	(580)	500	1,102
	1,749	–	2,582	–

## 7. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

## 8. Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share attributable to the equity holders of the Company is based on the following data:

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
Profit/(loss) for the period for the calculation of the basic and diluted earnings/(loss) per share	<u>HK\$(896,000)</u>	<u>HK\$794,000</u>	<u>HK\$(3,001,000)</u>	<u>HK\$(2,428,000)</u>
	<i>Number of shares</i>	<i>Number of shares</i>	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the calculation of basic and diluted earnings/(loss) per share	<u>723,087,310</u>	<u>723,087,310</u>	<u>723,087,310</u>	<u>723,087,310</u>

Diluted earnings per share for the three months and six months ended 30 June 2006 and 2007 has not been presented as the exercise price of the Company's convertible bonds were higher than the average market price for shares. As at 30 June 2006 and 2007, there was no outstanding share option.

## 9. Property, plant and equipment

During the six months ended 30 June 2007, additions to plant and equipment was approximately HK\$151,000 (six months ended 30 June 2006: HK\$15,000,000.)

**10. Inventories**

Inventories comprises of:-

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Raw materials	5,879	1,872
Work in progress	195	80
Finished goods	5,562	1,531
	<u>11,636</u>	<u>3,483</u>

**11. Trade and other receivables**

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	15,886	8,905
Other receivables, deposits and prepayment	13,331	16,190
	<u>29,217</u>	<u>25,095</u>

The aging analysis of trade receivables is as follows:

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 30 days	3,935	2,733
31 to 90 days	6,193	3,339
91 to 180 days	2,585	1,664
Over 180 days	3,173	1,169
	<u>15,886</u>	<u>8,905</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

**12. Trade and other payables**

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade payables	5,937	1,134
Temporary deposits, accruals and other payables	7,910	10,462
	<u>13,847</u>	<u>11,596</u>

The aging analysis of trade payables is as follows:–

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 30 days	3,402	601
31 to 90 days	1,823	468
91 to 180 days	712	65
	<u>5,937</u>	<u>1,134</u>

The directors consider that the carrying amount of trade and other payables approximates their fair value.

**13. Share capital**

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
<i>Authorised:</i>		
50,000,000,000 (31 December 2006: 50,000,000,000) ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
723,087,310 (31 December 2006: 723,087,310) ordinary shares of HK\$0.01 each	<u>7,231</u>	<u>7,231</u>

**14. Contingent liabilities**

As at 30 June 2007, the Group did not have any significant contingent liabilities.

**15. Operating lease commitment**

As at the balance sheet date, the Group had commitment for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within one year	170	504
In the second to fifth year inclusive	—	—
	<u>170</u>	<u>504</u>

As at the balance sheet date, the Company did not have any significant operating lease commitment.

Operating lease payments represent rentals payable by the Group for certain of its office premises. Lease is negotiated for fixed term of three years.

**16. Litigation**

On 19 January 2004, a winding up petition was filed against the Company by certain ex-senior employees of the Group claiming for payment in the sum of HK\$594,315 from the Company in respect of an award/order dated 29 October 2003 granted by the Labour Tribunal in respect of the severance and bonus disputes between the Company and the ex-senior employees. A provision was made for this amount in the Company's financial statements in the year 2005.

**17. Connected transactions**

During the period, the group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the GEM Listing Rules. The transactions during the period and balances with them at the balance sheet, are as follows:

Name of party	Nature of transactions	30 June	30 June
		2007	2006
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") (note i)	Purchase of plant and equipment (note ii)	–	15,000

It is opined that the above transactions were entered into on normal commercial terms.

*Notes:*

- i Weiyi is controlled by Mr. Cheng Qing Bo, the Chairman and executive director as well as the substantial shareholder of the Company
- ii The purchase price was set out in the sale and purchase agreement agreed by both parties.

## 5. UNAUDITED THIRD QUARTER RESULTS

The following is the unaudited consolidated results of the Group for the three months ended and nine months ended 30 September 2007 extracted from the relevant third quarter report of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	<i>Notes</i>	Three months ended		Nine months ended	
		30 September		30 September	
		2007	2006	2007	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	14,804	10,627	38,462	24,153
Cost of sales		(7,680)	(3,486)	(20,810)	(14,977)
Gross profit		7,124	7,141	17,652	9,176
Other revenue	3	145	1,930	439	6,155
Selling and distribution expenses		–	400	–	(17)
Administrative expenses		(1,296)	3,309	(3,497)	(3,620)
Depreciation for property, plant and equipments		(2,660)	–	(7,989)	–
Other operating expenses		(1,554)	(11,683)	(4,337)	(12,240)
Profit/(loss) from operations		1,759	1,097	2,268	(546)
Finance costs		(466)	(298)	(1,393)	(1,083)
Profit/(loss) before tax		1,293	799	875	(1,629)
Income tax expense	4	(1,836)	–	(4,418)	–
Profit/(loss) for the period		<u>(543)</u>	<u>799</u>	<u>(3,543)</u>	<u>(1,629)</u>
Dividend	5	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings/(loss) per share	6	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Basic		<u>(0.08)</u>	<u>0.11</u>	<u>(0.49)</u>	<u>(0.23)</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2007

	Share capital	Share premium	Translation reserve	Revaluation reserve	Convertible bonds reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006 (audited)	7,231	61,597	-	12,849	2,119	(34,373)	49,423
Surplus on revaluation of property, plant and equipment	-	-	-	19,802	-	-	19,802
Deferred tax liability on revaluation of property, plant and equipment	-	-	-	1,962	-	-	1,962
Loss for the period	-	-	-	-	-	(1,629)	(1,629)
At 30 September 2006 (unaudited)	<u>7,231</u>	<u>61,597</u>	<u>-</u>	<u>34,613</u>	<u>2,119</u>	<u>(36,002)</u>	<u>69,558</u>
At 1 January 2007 (audited)	7,231	61,597	117	29,700	3,888	(28,892)	73,641
Exchange differences arising on translation of financial statement outside Hong Kong	-	-	82	-	-	-	82
Reversal of deferred tax liability on convertible bonds	-	-	-	-	(115)	-	(115)
Deferred tax liability on revaluation of property, plant and equipment	-	-	-	1,166	-	-	1,166
Loss for the period	-	-	-	-	-	(3,543)	(3,543)
At 30 September 2007 (unaudited)	<u>7,231</u>	<u>61,597</u>	<u>199</u>	<u>30,866</u>	<u>3,773</u>	<u>(32,435)</u>	<u>71,231</u>

In the opinion of the directors, the revaluation reserve and convertible bonds reserve are not available for distribution to the Company's shareholders.

## Notes

**1. Basis of presentation**

The unaudited consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. In addition, the unaudited consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance. They are prepared under the historical cost convention as modified for the revaluation of certain property, plant and equipment and financial instruments.

The accounting policies adopted in preparing the unaudited consolidated results for the nine months ended 30 September 2007 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

**2. Application of new and revised Hong Kong Financial Reporting Standards**

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior periods.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Cost <sup>(1)</sup>
HKFRS 8	Operating Segments <sup>(1)</sup>
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions <sup>(2)</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>(3)</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>(4)</sup>
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>(3)</sup>

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

<sup>(2)</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>(3)</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>(4)</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. Revenue

An analysis of the Group's turnover is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Sales of goods	<u>14,804</u>	<u>10,627</u>	<u>38,462</u>	<u>24,153</u>

### 4. Income tax expense

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in or derived from Hong Kong during the three months ended and nine months ended 30 September 2007 (three months ended and nine months ended 30 September 2006: Nil). Taxes on profits assessable elsewhere have calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The taxation on the Group's profit/(loss) for the period differs from the theoretical amount that would arise using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rates are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Profit/(Loss) before tax	<u>(1,293)</u>	<u>799</u>	<u>(875)</u>	<u>(1,629)</u>
Taxation at the notional rate	164	(564)	2,246	(2,167)
Tax effect of expenses not deductible for taxation purpose	(2)	–	(2)	–
Tax effect of estimated tax profit/(loss) not recognized for the period	<u>1,674</u>	<u>564</u>	<u>2,174</u>	<u>2,167</u>
	<u>1,836</u>	<u>–</u>	<u>4,418</u>	<u>–</u>

## 5. Dividend

The Directors do not recommend the payment of interim dividend for the nine months ended 30 September 2007 (nine months ended 30 September 2006: Nil).

## 6. Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share attributable to the equity holders of the Company is based on the following data:

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
Profit/(loss) for the period for the calculation of the basic and diluted earnings/(loss) per share	<u>HK\$(543,000)</u>	<u>HK\$799,000</u>	<u>HK\$(3,543,000)</u>	<u>HK\$(1,629,000)</u>
	<i>Number of shares</i>	<i>Number of shares</i>	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the calculation of basic and diluted earnings/(loss) per share	<u>723,087,310</u>	<u>723,087,310</u>	<u>723,087,310</u>	<u>723,087,310</u>

Diluted earnings per share for the three months and nine months ended 30 September 2006 and 2007 has not been presented as the exercise price of the Company's convertible bonds were higher than the average market price for shares. As at 30 September 2006 and 2007, there was no outstanding share option.

**6. MATERIAL CHANGE**

Save as disclosed in the Company's unaudited interim report for the six months ended 30 June 2007 and the third quarterly report for the nine months ended 30 September 2007 and save for the effects of the Share Subscription, the Placings and the Rights Issue (which, in aggregate, will increase the net assets value of the Group by at least HK\$51.4 million), the Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Company, as shown in this Appendix, were made up.

**7. INDEBTEDNESS**

At the close of business on 31 December 2007, being the latest practicable date for purpose of this indebtedness statement, the Group had a loan from non-financial institution of approximately HK\$1.7 million.

Save as disclosed above and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, none of the members of the Group had, at the close of business on 31 December 2007, any outstanding mortgages, charges, debenture, loan capital issued and outstanding or agreed to be issued, bank loan and overdraft or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantee or other material contingent liabilities.

**8. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that, in the absence of unforeseen circumstances and based on the internal resources of the Group, the Group will have sufficient working capital for its present requirements for next 12 months from the date of this Circular.

The following are the unaudited pro forma financial information on the Group and the text of a report thereon received from the reporting accountant, Patrick Ng & Company, Certified Public Accountants, Hong Kong, prepared for the purpose of inclusion in this circular.

### 1) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of issue of Bonus Shares, Subscription for Shares, Placings of Shares, issue of Remuneration Shares and proposed Rights Issue on the consolidated net tangible assets of the Group as if the issue of Bonus Shares, Subscription for Shares, Placings of Shares, issue of Remuneration Shares and proposed Rights Issue had taken place on 30 June 2007 together with assumptions set out in the notes below.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group as at 30 June 2007 or at any future date.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net assets of the Group as at 30 June 2007 and is adjusted for the effect of the issue of Bonus Shares, Subscription for Shares, Placings of Shares, issue of Remuneration Shares and proposed Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue):

			Unaudited pro forma adjusted consolidated net tangible assets of the Group upon completion of the issue of the Bonus Shares, the Subscription for and Placings of Shares, the issue of the Remuneration Shares and the proposed Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue)	Unaudited consolidated net tangible assets per share before the issue of the Bonus Shares, the Subscription for and Placings of Shares, the issue of the Remuneration Shares and the Proposed Rights Issue (note c)	Unaudited pro forma adjusted consolidated net tangible assets per share upon completion of the issue of the Bonus Shares, the Subscription for and Placings of Shares, the issue of the Remuneration Shares and the Proposed Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) (note d)
Unaudited consolidated net tangible assets of the Group as at 30 June 2007	Estimated net proceeds from the Subscription for and the Placings of Shares (note a)	Estimated net proceeds from the Proposed Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) (note b)	Estimated net proceeds from the Proposed Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) (note b)	Unaudited consolidated net tangible assets per share before the issue of the Bonus Shares, the Subscription for and Placings of Shares, the issue of the Remuneration Shares and the Proposed Rights Issue (note c)	Unaudited pro forma adjusted consolidated net tangible assets per share upon completion of the issue of the Bonus Shares, the Subscription for and Placings of Shares, the issue of the Remuneration Shares and the Proposed Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) (note d)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$	HK\$
71,773	44,900	6,500	123,173	0.10	0.02

*Notes:*

- a The estimated net proceeds from the Subscription for and Placings of Shares are based on 3,542,000,000 Subscription Shares to be issued at the Subscription Price of HK\$0.01 per Subscription Share and 1,458,000,000 Placing Shares to be issued at the Placing price of HK\$0.01 per Placing Share respectively and the deduction of the estimated expenses of approximately HK\$5.1 million.
- b The estimated net proceeds from the proposed Rights Issue are based on 723,087,310 Rights Shares to be issued at the Subscription Price of HK\$0.01 per Rights share and the deduction of the estimated expenses of approximately HK\$0.7 million (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue).
- c The unaudited consolidated net tangible assets of the Group per Share before the issue of Bonus Shares, Subscription for and Placings of Shares, issue of Remuneration Shares and proposed Rights Issue is calculated based on 723,087,310 Shares in issue as at the Latest Practicable Date.
- d The unaudited pro forma adjusted consolidated net tangible assets of the Group per Share is calculated based on:
  - i) 723,087,310 Shares in issue as at the Latest Practicable Date;
  - ii) 36,154,365 Bonus Shares proposed to be issued and credited as fully paid at par on the basis of one Bonus Share for every existing twenty shares held on the Record Date;
  - iii) 3,542,000,000 Subscription Shares to be issued pursuant to the Subscription Agreement;
  - iv) 1,458,000,000 Placing Shares to be issued pursuant to the Placing Agreement;
  - v) 223,845,635 Remuneration Shares might be issued to settle part of the professional fees charged by Somerley and President Securities pursuant to the engagement letter concluded; and
  - vi) 723,087,310 Rights Shares to be issued pursuant to the Rights Issue (assuming all Qualifying Shareholders take up their proposed respective entitlements under the Rights Issue).

**2) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

*The following is the text of a report received from Patrick Ng & Company, Certified Public Accountants, Hong Kong, for the sole purpose of inclusion in this circular.*

29 February 2008

**ACCOUNTANTS' REPORT ON STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The Board of Directors,  
Intcera High Tech Group Limited,  
Room 1607B, 16/F.,  
Convention Plaza Office Tower,  
1 Harbour Road, Wanchai,  
Hong Kong.

Dear Sirs,

We report on the statement of unaudited pro forma adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of Intcera High Tech Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix II of the Company's circular dated 29 February 2008 (the "Circular") in connection with the subscription for new shares, placings of new shares proposed issue of bonus shares on the basis of one bonus share for every twenty existing shares held on record date, possible issue of remuneration shares and proposed rights issue on the basis of one rights share for every existing share held on record date (the "Proposed Transactions"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Proposed Transactions might have affected the financial information presented for inclusion to the Circular.

**Respective Responsibilities of Directors of the Company and Reporting Accountants**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules (GEM)") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").



It is our responsibility to form an opinion, as required by Rule 7.31(7) of the Listing Rules (GEM), on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 7.31(1) of the Listing Rules (GEM).

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the Listing Rules (GEM).

Yours faithfully,  
**Patrick Ng & Company**  
*Certified Public Accountants*  
Hong Kong

*Set out below is a summary of the principal terms and conditions of the New Share Option Scheme but does not form part of nor is it intended to be part of the New Share Option Scheme. The Directors reserve the right at any time prior to the EGM to make such amendments to the New Share Option Scheme as they may consider necessary or appropriate provided that such amendments do not conflict in any material respect with the summary in this Appendix.*

**(A) PURPOSE OF THE NEW SHARE OPTION SCHEME**

The New Share Option Scheme enables the Company to grant options to selected persons as incentives or rewards for contribution they have made or may make to the Group or any Invested Entity.

**(B) ADMINISTRATION OF THE NEW SHARE OPTION SCHEME**

The New Share Option Scheme shall be subject to the administration by the Board which includes a duly authorised committee thereof and the decision of the Board shall be final and binding on all parties.

**(C) WHO MAY JOIN**

The Board may, at its discretion, grant Options to any of the Participants. Participants means (i) any Employee; (ii) any directors (including executive, nonexecutive and independent non-executive directors) of any member of the Group or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any consultant or adviser of any member of the Group or any Invested Entity; (vii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity, and, for the purposes of the New Share Option Scheme, Options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of Participants.

**(D) PRICE OF SHARES OF THE COMPANY**

The subscription price of a share of the Company in respect of any particular Option shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the Offer Date; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets on the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares of the Company.

**(E) MAXIMUM NUMBER OF SHARES AVAILABLE FOR ISSUE**

- (i) The overall limit on the number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 30% of the relevant class of securities of the Company (or its subsidiaries) in issue from time to time.
- (ii) Subject to sub-paragraph (i) above, the total number of shares of the Company available for issue under options which may be granted under the New Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 10% of the shares of the Company in issue as at the date of approval of the New Share Option Scheme (the “Scheme Mandate Limit”), unless Shareholders’ approval has been obtained pursuant to sub-paragraphs (iii) and (iv) below. Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (iii) Subject to sub-paragraph (i) above, the Company may refresh the Scheme Mandate Limit at any time subject to approval of the Shareholders in general meeting. However, the Scheme Mandate Limit as refreshed must not exceed 10% of the shares of the Company in issue as at the date of the aforesaid Shareholders’ approval (the “Refreshed Limit”). Options previously granted under the New Share Option Scheme and any other share option scheme of the Company (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the Refreshed Limit. The Company must send a circular to the Shareholders in compliance with the requirements under the GEM Listing Rules.
- (iv) Subject to sub-paragraph (i) above, the Company may also seek separate approval of the Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to Participants specifically identified by the Company before such approval is sought. The Company must send a circular to the Shareholders containing a generic description of the specified Participants, the number and terms of Options to be granted, the purpose of granting Options to the specified Participants with an explanation as to how the Options serve such purpose and such other requirements under the GEM Listing Rules.

**(F) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT**

The total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted to each Participant (including exercised, cancelled and outstanding options) under the New Share Option Scheme and any other share option scheme of the Company in any 12-month period up to and including the Offer Date shall not exceed 1% of the relevant class of securities of the Company (or its subsidiaries) in issue at the Offer Date (the “Individual Limit”). Any further grant of Options in excess of the Individual Limit must be subject to Shareholders’ approval in general meeting with such Participant and his, her or its associates abstaining from voting. The Company must send a circular to the Shareholders disclosing the identity of the Participant, the number and terms of the Options to be granted (and options previously granted to such Participant) and such other requirements under the GEM Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Participant must be fixed before the date of the relevant Shareholders’ meeting and the date of the relevant Board meeting for proposing the offer of grant of the Options should be taken as the Offer Date for the purpose of calculating the subscription price.

**(G) GRANT OF OPTIONS TO CONNECTED PERSONS**

- (i) Any grant of Options to a connected person (as such term is defined in the GEM Listing Rules) of the Company or his, her or its associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the Options).
- (ii) Where any grant of options to a substantial shareholder (as such term is defined in the GEM Listing Rules) of the Company or an independent non-executive Director or their respective associates would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the New Share Option Scheme and any other share option scheme of the Company to such person in the 12-month period up to and including the Offer Date:
  - (aa) representing in aggregate over 0.1% of the shares of the Company in issue; and

- (bb) having an aggregate value, based on the closing price of the shares of the Company at each Offer Date, in excess of HK\$5 million,

such further grant of Options must be subject to approval of the Shareholders in general meeting taken on a poll. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person of the Company may vote against the resolution provided that his, her or its intention to do so has been stated in the circular. In addition, Shareholders' approval as described above is also required for any change in the terms of Options already granted to a grantee who is a substantial shareholder of the Company, an independent non-executive Director or any of their respective associates.

- (iii) The requirements for the granting of Options to a Director or chief executive of the Company set out above do not apply where the Participant is only a proposed Director or chief executive of the Company.

#### **(H) TIME OF AND PAYMENT ON ACCEPTANCE OF GRANT OF OPTION**

An offer of grant of an Option shall remain open for acceptance by the Participant to whom an offer of grant of an Option is made for a period of 21 days from the Offer Date, provided that no such offer shall be open for acceptance after the tenth anniversary of the date of adoption of the New Share Option Scheme or after the New Share Option Scheme has been terminated in accordance with the provision thereof. A consideration of HK\$1 is payable on acceptance of the offer.

#### **(I) TIME OF EXERCISE OF OPTION**

An Option may be exercised in accordance with the terms of the New Share Option Scheme at any time during a period to be determined by the Board at its absolute discretion and to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the Option. The Board may provide restrictions on the exercise of an Option during the period an Option may be exercised including, if appropriate, a minimum period for which an Option must be held or a performance target which must be achieved before an Option can be exercised. The New Share Option Scheme does not provide for any minimum period for which an Option must be held or a performance target which must be achieved before any of the Options can be exercised.

#### **(J) RIGHTS ARE PERSONAL TO GRANTEE**

An Option may not be transferred or assigned and is personal to the grantee.

**(K) RIGHTS ON CESSATION OF EMPLOYMENT BY DISMISSAL**

If the grantee of an Option is an employee and ceases to be an Employee by reason of the termination of his or her employment on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay debts or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty, his or her Option will lapse on the date of termination of the employment.

**(L) RIGHTS ON DEATH**

If the grantee of an Option is an Employee and ceases to be an Employee by reason of his or her death before exercising the Option in full and none of the events referred to in paragraph (K) above as ground for termination of his or her employment by the Group or the Invested Entity arises, his or her personal representative(s) may exercise the Option (to the extent not already exercised) within a period of twelve months from the date of death, failing which it will lapse.

**(M) RIGHTS ON CESSATION OF EMPLOYMENT FOR OTHER REASONS**

If the grantee of an Option is an Employee and ceases to be an Employee for any other reason, his or her Option may be exercised within three months following the date of such cessation, which date shall be the last actual working day with the Group or the Invested Entity, whether salary is paid in lieu of notice or not.

**(N) CANCELLATION OF OPTIONS**

Any cancellation of any Option which has neither lapsed nor been exercised in full shall be conditional on the approval by the Board and the grantee concerned. In the event that such Options have been cancelled, the issue of new Options to the same grantee shall be made with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit or the Refreshed Limit, as the case may be.

**(O) EFFECTS OF ALTERATIONS TO SHARE CAPITAL**

In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalisation issue, rights issue, sub-division or consolidation of shares of the Company, or reduction of capital of the Company or otherwise howsoever, such corresponding alterations (if any) shall be made to the aggregate number of shares of the Company in respect of which Options may be granted and/or the number of shares of the Company to which any Options relate so far as unexercised and/or the subscription price of each outstanding Option as the independent financial adviser or the auditors of the Company shall certify in writing to the Board to be in their opinion to have satisfied the requirements of Rule 23.03(13) of the GEM Listing Rules and the note thereto (except in the case of a capitalisation issue where no such certification is required). Any such alterations will be made on the basis that the aggregate subscription price payable on the full exercise of any Option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a share of the Company to be issued at less than its nominal value or which would change the proportion of the issued share capital of the Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him or her before such alteration. The issue of shares of the Company as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

**(P) RIGHTS ON A GENERAL OFFER**

- (i) In the event of a general offer (other than by way of scheme of arrangement referred to below) being made to all the holders of shares of the Company (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, the grantee (or his or her legal personal representatives) shall be entitled to exercise the Option (to the extent not already exercised) in full or to the extent specified in such notice at any time within one month of the notice given by the offeror to acquire the remaining shares of the Company.
- (ii) In the event of a general offer by way of scheme of arrangement being made to all the holders of shares of the Company and having been approved by the necessary number of holders of shares of the Company at the requisite meetings, the grantee (or his or her personal representatives) may thereafter (but before such time as shall be notified by the Company) exercise the Option (to the extent not already exercised) to its full extent or to the extent specified in such notice.



**(Q) RIGHTS ON WINDING UP**

In the event a notice is given by the Company to the Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to the grantee and the grantee (or his or her legal personal representatives) may by notice in writing to the Company (such notice to be received by the Company not later than four business days prior to the proposed Shareholders' meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of shares of the Company to the grantee which falls to be issued on such exercise.

**(R) RIGHTS ON COMPROMISE OR ARRANGEMENT**

Other than a scheme of arrangement referred to in sub-paragraph (ii) of paragraph (P) above, in the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the grantee (or his or her personal representatives) may by notice in writing to the Company accompanied by the remittance for the exercise price in respect of the relevant Option (such notice to be received by the Company not later than four business days prior to the proposed meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of shares of the Company to the grantee which falls to be issued on such exercise credited as fully paid and registered the grantee as holder thereof.

**(S) RANKING OF SHARES**

Shares of the Company to be allotted and issued on the exercise of Options will rank *pari passu* with the other fully-paid shares of the Company in issue as from the date when the name of the grantee is registered on the register of members of the Company and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date when the name of the grantee is registered on the register of members of the Company.

**(T) PERIOD OF THE NEW SHARE OPTION SCHEME**

Subject to earlier termination by the Company in general meeting or by the Board, the New Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption of the New Share Option Scheme. After the expiry of the ten-year period, no further Options will be offered or granted but in all other respects the provisions of the New Share Option Scheme shall remain in full force and effect.

**(U) TERMINATION OF THE NEW SHARE OPTION SCHEME**

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the New Share Option Scheme and in such event no further Options will be offered or granted but in all other respects the provisions of the New Share Option Scheme shall remain in full force and effect. Options complying with the provisions of Chapter 23 of the GEM Listing Rules which are granted during the life of the New Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the New Share Option Scheme shall continue to be exercisable thereafter.

**(V) LAPSE OF OPTION**

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of the periods referred to in paragraphs (L), (M) or (R), respectively;
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (ii) of paragraph (P);
- (iv) where the grantee of an Option is an Employee, the date on which he or she ceases to be an Employee by reason of the termination of his or her employment on the grounds referred to in paragraph (K);
- (v) subject to the provision referred to in paragraph (Q), the date of the commencement of the voluntary winding up of the Company;
- (vi) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to the Option in breach of the New Share Option Scheme;

- (vii) the expiry of the period referred to in sub-paragraph (i) of paragraph (P) provided that if any court of competent jurisdiction makes an order the effect of which is to prevent the offeror from acquiring shares of the Company in the offer, the relevant period within which Options may be exercised shall not begin to run until the discharge of the order in question or unless the offer lapses or is withdrawn before that date; or
- (viii) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the Option, unless otherwise resolved to the contrary by the Board.

**(W) ALTERATIONS TO THE NEW SHARE OPTION SCHEME**

The New Share Option Scheme may subject to the GEM Listing Rules be altered in any respect by resolution of the Board except that the provisions of the New Share Option Scheme as to:

- (i) the definitions of “Participant”, “Grantee” and “Option Period” in paragraph 1.1 of the New Share Option Scheme; and
- (ii) the purpose of the New Share Option Scheme, the duration of the New Share Option Scheme, the grant of Options, the subscription price, the exercise of Options, the lapse of Options, the maximum number of shares of the Company available for subscription, the reorganisation of the capital structure of the Company and the alteration of the New Share Option Scheme,

are governed by Rule 20.03 of the GEM Listing Rules and shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of the Company in general meeting (with all grantees, prospective grantees and their associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Shareholders under the articles of association for the time being of the Company for a variation of the rights attached to the shares of the Company. Any alterations to the terms and conditions of the New Share Option Scheme which are of a material nature or any change to the terms of Options granted must be approved by the Shareholders at a general meeting, except where such alterations take effect automatically under the existing terms of the New Share Option Scheme. Any change to the authority of the Board in relation to any alteration to the terms of the New Share Option Scheme must be approved by the Shareholders at a general meeting.

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the GEM Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular, other than those relating to the Subscriber, is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on the bases and assumptions that are fair and reasonable.

The sole director of the Subscriber accepts full responsibility for the accuracy of the information relating to the Subscriber contained in this circular and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions relating to the Subscriber expressed in this circular have been arrived at after due and careful consideration and there are no other facts relating to the Subscriber not contained in this circular, the omission of which would make any statement relating thereto misleading.

**2. SHARE CAPITAL OF THE COMPANY****(a) Authorised and issued share capital**

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>50,000,000,000</u>	Shares of HK\$0.01 each	<u>5,000,000,000.00</u>
<i>Issued and fully paid up:</i>		
<u>723,087,310</u>	Shares of HK\$0.01 each	<u>7,230,873.10</u>

All existing Shares rank pari passu with each other in all respects, including the rights as to voting, dividends and return of capital. No Shares have been issued since the end of the last financial year of the Company ended 31 December 2006.

**(b) Share options**

Up to the Latest Practicable Date, no Options have been granted under the Existing Share Option Scheme.

**(c) Convertible securities**

On 31 October 2002, the Company issued the Convertible Bonds with aggregate principal amount of HK\$27,400,000 which were originally due on 31 October 2003. The Company should repay the principal amount outstanding under the Convertible Bonds to the bondholders together with interest accrued thereon up to and including the date of actual repayment upon maturity. The Convertible Bonds bear interest at a rate of 2% per annum on the aggregate principal amount outstanding from time to time. Interest is payable yearly in arrears on 31 December. The Convertible Bonds carry the rights to convert, at the discretion of the bondholders, either in whole or in part the principal amount into ordinary shares of the Company at the initial conversion price of HK\$0.17 per share (subject to adjustments), from 1 November 2002 to the maturity date.

On 1 November 2003, the Company entered into agreements with the bondholders to extend the maturity date to 31 October 2005, with the other terms and conditions remained unchanged.

On 28 December 2004, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2006, with the other terms and conditions remained unchanged.

On 26 December 2005, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2007, with the other terms and conditions remained unchanged. Accordingly, the amount was classified as non-current at 31 December 2005.

On 31 July 2006, the Company entered into agreements with the bondholders to extend the maturity date to 30 June 2008, with the other terms and conditions remained unchanged. Accordingly, the amount was classified as non-current at 31 December 2006.

On 28 September 2007, the Company entered into agreements with the bondholders to extend the maturity date to 31 December 2009, with the other terms and conditions remained unchanged.

Save for the Convertible Bonds, the Company has not issued any options, warrants, derivatives or securities convertible or exchangeable into Shares since 31 December 2006, being the date to which the latest published audited consolidated accounts of the Group were made up.

## 3. DISCLOSURE OF INTEREST

## (a) Interests in the Company

*Directors and Chief Executive's Interests in Securities*

As at the Latest Practicable Date, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors, were as follows:

(i) *Long positions in Shares*

Name of Director	Number of Shares	Capacity	Nature of interest	Approximate percentage of issued share capital (%) (Note 2)
Mr. Cheng	180,000,000 (Note 1)	Beneficial owner	Corporate	24.89
Mr. Tung	4,759,935 (Note 3)	Interest of a controlled corporation	Corporate	0.78
Mr. Tung	5,637,500	Beneficial owner	Personal	0.76

*Notes:*

- These Shares are held by Bright Castle, which is wholly owned by Mr. Cheng, Mr. Cheng is therefore deemed to be interested in the Shares held by Bright Castle.
- The percentage of issued share capital had been arrived at on the basis of a total of 723,087,310 Shares in issue as at the Latest Practicable Date.

3. These Shares are held as to 4,017,435 directly by Taiping Enterprises Company Limited (“Taiping”) and as to 742,500 through Mamcol Taiwan Company Limited (“Mamcol”), which is a wholly owned subsidiary of Taiping. These shares are attributable to Mr. Tung under the SFO, since Taiping is a corporation whose board of directors is accustomed to act in accordance with Mr. Tung’s directors or instructions.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors.

- (ii) *Long positions in underlying Shares or equity derivatives of the Company – share option*

No share option has been granted under the Existing Share Option Scheme.

- (iii) *Short positions in the Shares and underlying Shares or equity derivatives of the Company*

Saved as disclosed herein, as at the Latest Practicable Date, none of the Directors had short positions in Shares or underlying Shares or equity derivatives of the Company.

*Interests of Substantial Shareholders in Securities*

So far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

*(i) Long positions in Shares*

Name of Shareholders	Number of Shares	Nature of interest	Approximate percentage of issued share capital (%) (Note 3)
Bright Castle	180,000,000 (Note 1)	Corporate	24.89%
JL Investment Capital Limited	3,542,000,000 (Note 2)	Corporate	489.84%

*Notes:*

- The entire issued share capital is wholly-owned by Mr. Cheng.
- The Subscriber, the entire issued share capital of which is wholly-owned by Mr. Lau. The interest represents 3,542,000,000 Shares to be subscribed under the Subscription Agreement.
- The percentage of issued share capital has been arrived at on the basis of a total of 723,087,310 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.



(ii) *Short positions in the Shares and underlying Shares or equity derivatives of the Company*

So far as the Directors are aware, save as disclosed herein, as at the Latest Practicable Date, no persons had short positions in Shares or underlying Shares or equity derivatives of the Company.

***Others***

As at the Latest Practicable Date, Somerley and Mr. Sabine (being the controlling shareholder of Somerley) and his associates were interested in 264,000 Shares, representing approximately 0.037% of the existing issued share capital of the Company.

Save as disclosed in the paragraph above and as at the Latest Practicable Date, none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor any other advisors to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had any interest in any Shares, convertible securities, warrants, options or derivatives of the Company.

**(b) Dealing in Shares**

(i) ***Directors***

None of the Directors or parties acting in concert with any of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(ii) ***The Subscriber, the Placing Agent and parties acting in concert with it***

During the Relevant Period, save for entering into the Subscription Agreement and the Placing Agreements, neither the Subscriber, the sole director of the Subscriber, the Placing Agent, nor any person acting in concert with any of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company.

*(iii) Others*

During the Relevant Period, none of the subsidiaries of the Company, nor any pension fund of the Company or any of its subsidiaries, nor Somerley, nor President Securities, nor REXCAPITAL (Hong Kong) Limited, nor AsiaVest Partners Limited or any other advisors to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company.

**(c) Interests and dealings in the Subscriber**

None of the Directors nor the Company had any interest in the shares, options, warrants, convertible securities or derivatives of the Subscriber nor any of them dealt for value in any shares, options, warrants, convertible securities or derivatives of the Subscriber during the Relevant Period.

**4. MARKET PRICES**

Trading in the Shares has been suspended since 6 October 2003 and has not been resumed up to the Latest Practicable Date. The closing price per Share immediately before suspension in trading was HK\$0.086.

**5. LITIGATIONS AND CLAIMS**

On 19 January 2004, a winding up petition was filed against the Company by certain ex-senior employees of the Group claiming for payment in the sum of approximately HK\$594,000 from the Company in respect of an award/order dated 20 October 2003 granted by the Labour Tribunal in respect of the severance and bonus dispute between the Company and such employees. The unsettled amounts of HK\$594,000 not yet paid up to 31 December 2006 were fully accrued as trade and other payables for the year ended 31 December 2006. The plaintiff has not proceed with any further legal action up to the Latest Practicable Date.

Save as disclosed above, no member of the Group was engaged in any litigation or arbitration of material importance as at the Latest Practicable Date, and there was no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

**6. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors have entered into any service contracts with the Company or any of its subsidiaries or associated companies:

- (i) which (including both continuous and fixed term contracts) have been entered into or amended during the Relevant Period;

- (ii) which are continuous contracts with a notice period of 12 months or more; or
- (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

#### **7. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, save for the Bonus Issue and the Rights Issue in which Mr. Cheng and Mr. Tung are interested,

- (a) Save for the Acquisition Agreement and the transactions contemplated thereunder as disclosed in this circular, there is no contract or arrangement in which any of the Directors is materially interested and which is significant in relation to the business of the Group during the Relevant Period;
- (b) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2006 (the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or lease to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) there is no agreement, arrangement or understanding (including any compensation arrangement) between any of the Directors and (a) any other persons; or (b) the Subscriber or any person acting in concert with it which is conditional on or dependent upon the outcome of the Share Subscription, the Whitewash Waiver, the Bonus Issue, the Rights Issue or the Placings;
- (d) there is no material contract entered into by the Subscriber in which any Director has a material personal interest; and
- (e) no benefit has been or will be given to any Director as compensation for loss of office or otherwise in connection with the Share Subscription, the Whitewash Waiver, the Bonus Issue, the Rights Issue or the Placings.

#### **8. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business or interest that competes or may compete directly or indirectly with the business of the Group or any other conflicts of interest with the Group.

**9. EXPERTS AND CONSENT**

The following is the qualification of the experts whose letters are contained in this circular:

<b>Name</b>	<b>Qualification</b>
REXCAPITAL (Hong Kong) Limited	a licensed corporation under the SFO to carry on type 6 regulated activity (advising on corporate finance)
AsiaVest Partners Limited	a licensed corporation under the SFO to carry on types 4, 6 and 9 regulated activities (advising on securities, advising on corporate finance and asset management)
Patrick Ng & Company	Certified Public Accountants

REXCAPITAL (Hong Kong) Limited, AsiaVest Partners Limited and Patrick Ng & Company have given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and report and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, REXCAPITAL (Hong Kong) Limited, AsiaVest Partners Limited and Patrick Ng & Company did not have any shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for shares, options, warrants, convertible securities or derivatives in any member of the Group.

As at the Latest Practicable Date, REXCAPITAL (Hong Kong) Limited, AsiaVest Partners Limited and Patrick Ng & Company did not have any direct or indirect interest in any assets which have been, since 31 December 2006 (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 member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**10. MATERIAL CONTRACTS**

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group after the date two years before the date of the First Announcement and up to the Latest Practicable Date and are or may be material:

- (a) the Subscription Agreement;
- (b) the First Placing Agreement;
- (c) the Second Placing Agreement; and
- (d) the Acquisition Agreement.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection (i) at the office of Vincent T.K. Cheung, Yap & Co., the legal adviser of the Company at 15/F, Alexandra House, 18 Chater Road, Hong Kong during 9:00 a.m. to 6:00 p.m. on any weekday (public holidays excepted); (ii) on the Company's website ([www.intcera.com.hk](http://www.intcera.com.hk)); and (iii) the website of SFC ([www.sfc.hk](http://www.sfc.hk)) from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Subscriber;
- (c) the annual reports of the Company for the two years ended 31 December 2005 and 31 December 2006;
- (d) the interim report of the Company for the six-month period ended 30 June 2007;
- (e) the third quarterly report of the Company for the nine-month period ended 30 September 2007;
- (f) the accountants' report issued by Patrick Ng & Co. on the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group, the text of which is set out in Appendix II to this circular;
- (g) the material contracts referred to under the paragraph headed "Material Contracts" in this appendix;
- (h) the letter from the Independent Board Committee, the text of which is set out on pages 71 to 72 of this circular;
- (i) the letter of advice from the Joint Independent Financial Advisers to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 73 to 101 of this circular;
- (j) the written consents referred to in the paragraph headed "Experts and consent" in this appendix; and
- (k) a copy of each circular issued pursuant to the requirements set out in Chapter 19 and/or 20 of the GEM Listing Rules which has been issued since the date of the latest published audited accounts of the Group.

**12. DIRECTORS INFORMATION****Executive Directors*****Mr. CHENG Qing Bo***

Aged 45, is the Chairman and an Executive Director of the Group. He joined the Group in June 2002. Mr. Cheng is responsible for overseeing the general management and formulating the strategic plans of the Group. Mr. Cheng is also the chairman of Shenzhen Zhongji and Weiyi and concurrently holding directorships in various other companies. Mr. Cheng holds a master degree in economics from Zhongnan University of Finance and Economics, and has passed the China United Examination for Certified Public Accountants. He also obtained the Securities Practitioner Certificate. Mr. Cheng has over 10 years of experience in finance, accounting and investment management.

***Mr. TUNG Tai Yung***

Aged 42, is an Executive Director and the Chief Technology Officer of the Group and the directors of certain subsidiaries of the Company. Mr. Tung joined the Group in February 1998. Mr. Tung graduated from California Santa Clara University in the United States with a bachelor degree in electrical engineering.

***Ms. LI Fang***

Aged 32, is an Executive Director of the Group. She joined the Group in April 2005. Ms. Li is a member of the Certified Public Accountants in the PRC (non-practicing). She holds a degree in economics from Zhonguan University of Finance and Economics. Ms. Li has over 10 years of experience in the financing and accounting field in the People's Republic of China (the "PRC").

**Non-executive Director*****Mr. LIN Nan***

Aged 44, is a Non-executive Director. He joined the Group in November 2004. Mr. Lin holds a PhD in business administration from Southwest International University, United States. He is currently the general manager of a private company in the PRC. Besides, Mr. Lin is a committee member of 中國上海市盧灣區第十屆政協委員會. He has over 10 years of management experience.

**Independent Non-executive Directors*****Mr. LIU Zheng Hao***

Aged 48, was appointed Independent Non-executive Director in September 2004. Mr. Liu is currently a director as well as the financial controller of a private company in Shenzhen of the PRC.

***Mr. Williamson LAM***

Aged 33, is a practicing member of the Hong Kong Institute of Certified Public Accountants and a full member of the CPA (Australia). He joined the Group as an Independent Non-executive Director in February 2007. Mr. Lam obtained his bachelor degree of business from Monash University, Australia and has over 10 years experience in auditing, accounting, taxation, company secretarial, finance and financial management. Mr. Lam had worked for international and local accounting firms, multi-national company, financial institutes and listed companies. Currently, Mr. Lam is also an independent non-executive director of Victory Group Limited, a company listed on the Stock Exchange.

***Ms. MAK Wai Fong***

Aged 40, is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. She joined the Group as an Independent Non-executive Director in March 2007. Ms. Mak obtained her master degree of science in computer science from Victoria University of Technology, Australia and has over 10 years experience in auditing, accounting, taxation, company secretarial, finance and financial management. Ms. Mak had worked for several listed companies. Currently, Ms. Mak is a group accountant of a company listed on the Singapore Exchange Limited.

**13. AUDIT COMMITTEE**

The Company established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee comprises three independent non-executive Directors, namely Mr. Lam Williamson, Ms. Mak Wai Fong and Mr. Liu Zheng Hao. The biographies of members of the audit committee are set out in the paragraph headed "Directors Information" above.

**14. PARTIES INVOLVED AND CORPORATE INFORMATION**

Registered office	Cricket Square Hutchins Drive, P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	Room 1607B, 16/F, Convention Plaza Office Tower, 1 Harbour Road, Wanchai, Hong Kong
Joint Financial Advisers to the Company	Somerley Limited 10th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.  President Securities (Hong Kong) Limited Unit 3205-06, 32/F, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.
Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders	REXCAPITAL (Hong Kong) Limited 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.  AsiaVest Partners Limited 2605 Universal Trade Centre, 3 Arbuthnot Road, Central, Hong Kong.



Legal advisers to the Company  
in relation to the Rights Issue

*On Hong Kong Law:*  
Vincent T.K. Cheung, Yap & Co.  
15/F,  
Alexandra House,  
18 Chater Road,  
Hong Kong

*On Cayman Islands Law:*  
Conyers Dill & Pearman  
2901 One Exchange Square  
8 Connaught Place  
Central, Hong Kong

Auditors

Patrick Ng & Company  
Certified Public Accountants  
20/F., Hong Kong Trade Centre,  
161-167, Des Voeux Road,  
Central, Hong Kong

Principal bankers

Standard Chartered Bank (Hong Kong)  
Limited  
32nd Floor,  
4-4A Des Voeux Road Central,  
Hong Kong

The Hongkong and Shanghai Banking  
Corporation Limited  
HSBC Main Building,  
1 Queen's Road Central, Hong Kong

The Bank of China (Hong Kong)  
Limited  
14th Floor, Bank of China Tower,  
1 Garden Road, Central, Hong Kong

Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. Butterfield House, Fort Street P.O. Box 705 George Town, Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Abacus Limited 26/F, Tesbury Centre 28 Queen's Road East Hong Kong
Authorized representatives	Cheng Qing Bo Li Fang
Compliance officer	Cheng Qing Bo
Company secretary and qualified accountant	Wong Hon Kit Certified Public Accountant in Hong Kong, member of the Hong Kong Institute of Certified Public Accountants

**15. EXPENSES**

The expenses in connection with the Rights Issue, including printing, registration, legal, professional and accounting charges are estimated to amount to approximately HK\$0.7 million and will be payable by the Company.

**16. MISCELLANEOUS**

- (a) The registered office of the Subscriber is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands, with correspondence address in Hong Kong at Room 4102, 41/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.
- (b) As at the Latest Practicable Date, the sole director and sole beneficial owner of the Subscriber is Mr. Lau Chi Yuen, Joseph.
- (c) Save as disclosed in this circular, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of clauses (1), (2), (3) and (4) of the definition of associate under the Takeovers Code, the Subscriber or with any party acting in concert with the Subscriber.
- (d) As at the Latest Practicable Date, no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company.
- (e) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue, the Rights Issue or the Past Transactions Requiring Approval.
- (f) Save for Mr. Cheng and Mr. Tung who will abstain from voting on the resolutions relating to the Share Subscription and the Whitewash Waiver, none of the other Directors held any Shares as at the Latest Practicable Date.
- (g) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which exist between the Subscriber, or any person acting in concert with the Subscriber, and any other persons.

- (h) There is no agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber or any person acting in concert with it and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the outcome of the Share Subscription, the Whitewash Waiver, the Placings, the Bonus Issue or the Rights Issue.
- (i) As at the Latest Practicable Date, there is no agreement, arrangement or understanding to transfer, charge or pledge to any person any voting rights over the Subscription Shares.
- (j) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

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## NOTICE OF THE EGM

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# **INTCERA**

## **Intcera High Tech Group Limited**

### **大陶精密科技集團有限公司\***

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

**(Stock Code: 8041)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Intcera High Tech Group Limited (the “Company”) will be held at Flat 2, 2/F, 2 Pak Sha Road, Causeway Bay, Hong Kong on 18 March 2008 at 10:00 a.m., Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments the following resolutions as ordinary resolutions of the Company:

### **ORDINARY RESOLUTIONS**

1. “**THAT** subject to and conditional upon the GEM Listing Committee of the Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Subscription Shares (as defined below), the Subscription Agreement (as defined and described in the circular of the Company dated 29 February 2008 (the “Circular”)), a copy of which is produced to this meeting and marked “A” and signed by the chairman of this meeting for identification purpose, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified and that the directors of the Company (the “Directors”) be and are hereby authorized on behalf of the Company (i) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Subscription Agreement and all transactions contemplated thereunder; (ii) to allot and issue an aggregate of 3,542,000,000 new ordinary shares (the “Subscription Shares”) of HK\$0.01 each in the share capital of the Company (the “Shares”) in accordance with the terms of the Subscription Agreement, such Subscription Shares to be allotted and issued credited as fully paid and ranking pari passu in all respects with all the Shares then in issue; (iii) to exercise or enforce all of the rights of the Company under the Subscription Agreement; and (iv) to complete the Subscription Agreement in accordance with its terms.”.

\* *for identification purpose only*

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## NOTICE OF THE EGM

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2. “**THAT** subject to the passing of the resolution numbered 1 set out in the notice convening the extraordinary general meeting of the Company at which this resolution is proposed, the Whitewash Waiver (as defined in the Circular) be and is hereby approved and that the Directors be and are hereby authorized to do all things and acts and sign all documents which they consider desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Whitewash Waiver.”.
  
3. “**THAT** subject to and conditional upon the GEM Listing Committee of the Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the First Placing Shares (as defined below), the First Placing Agreement (as defined and described in the Circular), a copy of which is produced to this meeting and marked “B” and signed by the chairman of this meeting for identification purpose, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified and that the Directors be and are hereby authorized on behalf of the Company (i) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of or in connection with the implementation of the First Placing Agreement and all transactions contemplated thereunder; (ii) to allot and issue an aggregate of 458,000,000 Shares (the “First Placing Shares”) in accordance with the terms of the First Placing Agreement, such First Placing Shares to be allotted and issued credited as fully paid and ranking pari passu in all respects with all the Shares then in issue; (iii) to exercise or enforce all of the rights of the Company under the First Placing Agreement; and (iv) to complete the First Placing Agreement in accordance with its terms.”.

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## NOTICE OF THE EGM

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4. “**THAT** subject to and conditional upon the GEM Listing Committee of the Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Second Placing Shares (as defined below), the Second Placing Agreement (as defined and described in the Circular), a copy of which is produced to this meeting and marked “C” and signed by the chairman of this meeting for identification purpose, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified and that the Directors be and are hereby authorized on behalf of the Company (i) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Second Placing Agreement and all transactions contemplated thereunder; (ii) to allot and issue an aggregate of 1,000,000,000 Shares (the “Second Placing Shares”) in accordance with the terms of the Second Placing Agreement, such Second Placing Shares to be allotted and issued credited as fully paid and ranking pari passu in all respects with all the Shares then in issue; (iii) to exercise or enforce all of the rights of the Company under the Second Placing Agreement; and (iv) to complete the Second Placing Agreement in accordance with its terms.”.
  
5. “**THAT** subject to and conditional upon the GEM Listing Committee of the Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Rights Shares (as defined below), (i) the issue of not more than 723,087,310 new Shares (“Rights Shares”) by way of rights issue (the “Rights Issue”) at the subscription price of HK\$0.01 per Rights Share to the shareholders of the Company (“Shareholders”) whose names appear on the register of members of the Company on the Record Date (as defined in the Circular) excluding those Shareholders whose registered addresses as shown on such register are outside Hong Kong on the Record Date whom the Directors, after making enquiries, on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange of that place, consider it necessary or expedient not to offer the Rights Shares, in the proportion of 1 Rights Share for each existing Share so held on the Record Date, on and subject to the terms and conditions set out in the Circular and on such other terms and conditions as may be determined by the Directors be and is hereby approved; and (ii) the Directors be and are hereby authorized to allot and issue the Rights Shares and to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Rights Issue.”.

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## NOTICE OF THE EGM

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6. “**THAT** the Past Transactions Requiring Approval (as defined in the Circular) and the respective transactions contemplated thereunder be and are hereby approved, confirmed and ratified in all respects and that the Directors be and are hereby authorized to do all things and acts and sign all documents which they consider desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Past Transactions Requiring Approval.”
  
7. “**THAT** the existing share option scheme adopted by the Company on 29 April 2002 be terminated and the rules of the new share option scheme (a copy of which has been submitted to the meeting and marked “D” and signed by the Chairman of the meeting for the purpose of identification) be and are hereby approved and adopted as the new share option scheme of the Company (the “New Share Option Scheme”) and that the Board of Directors of the Company be and is hereby authorised to implement the same and subject to the GEM listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in the shares of the Company to be issued and allotted pursuant to the exercise of options to be granted under the New Share Option Scheme, to grant options thereunder and to allot and issue shares and other securities of the Company pursuant to the exercise of any options granted thereunder provided that the total number of shares or other securities of the Company which may be allotted and issued upon the exercise of all options to be granted under the New Share Option Scheme and any other scheme shall not exceed 10 per cent of the total number of issued shares or the relevant class of securities of the Company as at the day on which this resolution is passed.”
  
8. “**THAT** subject to and conditional upon the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares and Remuneration Shares (as defined below):
  - (a) subject to the passing of the resolutions numbered 1, 3 and 4 above, an amount of not more than HK\$362,000 being part of the amount standing in the credit of the share premium account of the Company be capitalized and the Directors be and are hereby authorised and directed to appropriate the said sum in paying up in full at par not more than 36,154,365 new shares of the Company (the “Bonus Shares”), such Bonus Shares to be allotted and issued, credited as fully paid, by way of bonus issue (“Bonus Issue”) to the shareholders of the Company (the “Shareholders”) whose names appear on the register of members of the Company on the Record Date, excluding those Shareholders whose registered addresses as shown on such register are outside Hong Kong whom the Directors, after making enquiries, on account either of legal restrictions under the laws of



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## NOTICE OF THE EGM

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the relevant place or the requirements of the relevant regulatory body or stock exchange of that place, consider it necessary or expedient not to offer the Bonus Shares, in the proportion of 1 Bonus Share for every 20 existing Shares so held on the Record Date, on and subject to the terms and conditions set out in the Circular and on such other terms and conditions as may be determined by the Directors; and the Directors be and are hereby authorised to allot and issue the Bonus Shares and to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to implement the Bonus Issue; and

- (b) the issue of the Remunerations Shares (as defined in the Circular) at an issue price of HK\$0.01 per new Share in settlement of part of the professional fees charged by Somerley Limited and President Securities (Hong Kong) Limited be and is hereby approved such Remuneration Shares to rank *pari passu* in all respects with all the shares of the Company then in issue and the directors be and are hereby authorised to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of or in connection with the issue and allotment of the Remuneration Shares.”.

Yours faithfully,

By Order of the Board

**Intcera High Tech Group Limited**

**Cheng Qing Bo**

*Chairman*

Hong Kong, 29 February 2008

*Registered office:*

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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

Room 1607B, 16/F,

Convention Plaza Office Tower,

1 Harbour Road,

Wanchai,

Hong Kong

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## NOTICE OF THE EGM

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*Notes:*

1. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more than one proxy (if he is the holder of two or more shares) to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the EGM is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the office of the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.