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

If you have sold or transferred all your securities in ERA Holdings Global Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, 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.

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ERA Holdings Global Limited

年代國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8043)

- (1) VERY SUBSTANTIAL ACQUISITION**
(2) CONNECTED TRANSACTION
(3) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(4) APPLICATION FOR WHITEWASH WAIVER
(5) ISSUE OF REMUNERATION SHARES
(6) PLACING
AND
(7) ADOPTION OF NEW ARTICLES

**Financial adviser to ERA Holdings Global Limited
in respect of the Proposed Transactions and the Sponsor to
the deemed new listing application of ERA Holdings Global Limited**



SOMERLEY LIMITED

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



A letter from the Independent Board Committee (as defined in this circular) is set out on pages 69 to 70 of this circular, and a letter from the Independent Financial Adviser (as defined in this circular) containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 71 to 108 of this circular.

A notice convening the extraordinary general meeting of ERA Holdings Global Limited to be held at Unit 9B, 9th Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong on Friday, 23 July 2010 at 11:00 a.m. is set out on pages EGM – 1 to EGM – 7 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of ERA Holdings Global Limited in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the meeting or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the website of ERA Holdings Global Limited at www.eraholdings.com.hk.

30 June 2010

CHARACTERISTICS OF GEM

The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. 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.

CONTENTS

	<i>Page</i>
Expected Timetable	1
Summary	2
Definitions	16
Corporate Information	23
Directors	25
Parties Involved	27
Letter from the Board	29
Letter from the Independent Board Committee	69
Letter from the Independent Financial Adviser	71
Risk Factors	109
Industry Overview	139
PRC Regulatory Overview	148
History and Background of the Target Group	157
Business of the Target Group	171
Statement of Business Objectives	206
Relationship with the Controlling Shareholders	210
Directors and Senior Management of the Enlarged Group	217

CONTENTS

	<i>Page</i>
Financial Information of the Target Group	225
Share Capital	273
Appendix I – Accountants’ Reports on the Target Group	I – 1
Appendix II – Financial Information of the Group	II – 1
Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group	III – 1
Appendix IV – Property Valuation of the Enlarged Group	IV – 1
Appendix V – Summary of the Constitution of the Company and Cayman Islands Company Law	V – 1
Appendix VI – Statutory and General Information	VI – 1
Appendix VII – Documents Available for Inspection	VII – 1
Appendix VIII – Summary of Material Changes in the New Articles of Association	VIII – 1
Appendix IX – Full Text of the Amendments to the Articles	IX – 1
Notice of EGM	EGM – 1

EXPECTED TIMETABLE

EXPECTED TIMETABLE AND TRADING ARRANGEMENTS

The following expected timetable is indicative only and is subject to change. If necessary, further announcement(s) in relation to revised timetable will be published as and when appropriate.

Latest time for lodging forms of proxy for the EGM 11:00 a.m.
on Wednesday, 21 July 2010

EGM 11:00 a.m.
on Friday, 23 July 2010

Announcement of the results of the EGM to be published Friday, 23 July 2010

Completion of the Acquisition
and issue of the Consideration Shares on or before 31 December 2010

Announcement of completion of the
Acquisition to be published one business day after Completion

SUMMARY

This summary aims at giving you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision on the Proposed Transactions and the appropriate course of action for yourself.

There are risks associated with any business. You should read the section headed “Risk factors” of this circular carefully before making a decision on the Proposed Transactions.

SUMMARY

Background

It was announced that on 20 November 2009, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement for the Purchaser to acquire from the Vendor the Sale Share, which represents the entire issued share capital of the Target. It was further announced that the Purchaser and the Vendor enter into a supplemental deed on 31 March 2010 to amend certain terms of the Agreement. The aggregate consideration for the Acquisition payable by the Purchaser to the Vendor shall be HK\$1,164,000,000, which shall be satisfied by procuring the Company to issue 4,000,000,000 Consideration Shares at an issue price of HK\$0.291 per Consideration Share to the Vendor at Completion. The Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules. Immediately upon completion of the Acquisition and the Placing, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company and become a controller of the Company. Accordingly, pursuant to Rule 20.13(1)(b)(i) of the GEM Listing Rules, the Acquisition also constitutes a connected transaction for the Company. The Agreement and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders under the GEM Listing Rules.

In addition, the Acquisition and the transactions contemplated under the Agreement constitute a reverse takeover for the Company under Rule 19.06(6)(a) of the GEM Listing Rules. Accordingly, the Company will be treated as if it were a new listing applicant. The Acquisition and transactions contemplated under the Agreement are therefore also subject to the approval by the Listing Division of the Stock Exchange of a new listing application to be made by the Company. Somerley has been appointed as the sponsor in respect of the new listing application of the Company. As previously announced, the new listing application was submitted to the Stock Exchange on 22 January 2010. The Listing Division of the Stock Exchange has given its approval in principle of the new listing application of the Company.

SUMMARY

Purposes of this circular

The purpose of this circular is to provide the Shareholders with further information about (a) the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares); (b) the Whitewash Waiver; (c) the Placings; (d) the issue of Remuneration Shares; and (e) the adoption of the new Articles, and to give a notice to the Shareholders of the EGM. This circular also provides additional information on the Target Group as required under the GEM Listing Rules in connection with the new listing application.

INFORMATION ON THE TARGET GROUP

The Target Group is one of leading manufacturers of hydraulic roof supports in the PRC. According to China National Coal Machinery Industry Association, Zhengzhou Siwei was the third largest hydraulic roof support manufacturers among members of the China National Coal Machinery Industry Association in the PRC with market share in respect of sales of hydraulic roof support machinery of approximately 9.0% by units sold in 2008.

The Target Group manufactures hydraulic roof supports at its facilities in Zhengzhou, Henan Province. The Target Group has obtained ISO9001:2000 certification for its quality management system in respect of the design development, production and service of the fittings and the hydraulic roof supports.

Zhengzhou Siwei is currently accredited as a high and new technology enterprise and such qualification will expire on 13 November 2011.

It manufactures four major types of roof supports, namely two-leg support, four-leg chock support, sub-level caving powered shield and face-end hydraulic roof supports.

The following table sets forth the highlights of the hydraulic roof supports of the Target Group:

Hydraulic Roof Support	Features
Two-leg support	Two-leg support type hydraulic roof supports have six types in five series with working resistance ranging from 1,800 KN to 17,000 KN and height ranging from 1.5 meters to 5.6 meters. Some of them may be used with fully-automatic ploughs working in thin seams. Its two-pillar shield type hydraulic roof supports generally feature simple structure, light weight, sufficient passages for workers and good ventilation.

SUMMARY

Four-leg chock support	Four-leg choke support hydraulic roof supports have three types in four series with working resistance ranging from 3,000 KN to 13,000 KN and heights ranging from 1.4 meters to 6.0 meters. They are mainly used in thick seams.
Sub-level caving powered shield	Sub-level caving powered shield hydraulic roof supports have four types in four series with working resistance ranging from 1,800 KN to 13,000 KN and clearance ranging from 1.4 meters to 4.5 meters. They feature low clearance and low body which enables them to work in thin seams.
Face-end hydraulic roof supports	Face-end hydraulic roof supports have twelve types with working resistance ranging from 12,800 KN to 25,600 KN and height ranging from 1.6 meters to 3.4 meters. They are mainly used in the tunnels cut by the roadheaders rather than on the working face.

The Target Group has established a clientele of coal mining producers located in 13 provinces and autonomous regions through its sales headquarters and Zhengzhou Siwei M&E Sales. It is not the strategy of the Target Group to compete primarily based on pricing. It seeks to differentiate its products from its competitors through the superior technical features, quality and service.

Competitive Strengths

- Well positioned to benefit from substantial development opportunities for coal mining equipment industry in the PRC supported by expected sustainable growth and modernization of PRC coal mining industry;
- Experienced management team;
- Well established relationships with certain domestic coal producers and extensive and comprehensive distribution and service network;
- High standards of reliability, safety and efficiency; and
- Strong research and development capability.

Please refer to the sub-section headed “Competitive Strengths” under the section headed “Business of the Target Group” of this circular for further details.

SUMMARY

Business Strategies

- Capture aftermarket sales opportunity;
- Further enhance research and development capability;
- Continue to generate further business opportunities; and
- Expand its production capacity and consolidate its production facilities.

The implementation of the Target Group's business strategies depends on the availability of relevant business opportunities that may arise or may be seized upon by the Target Group within any particular or material period of time from the Latest Practicable Date to 31 December 2012.

Please refer to the sub-section headed "Business Strategies" under the section headed "Business of the Target Group" of this circular for further details.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company and the Group is principally engaged in home video distribution, theatrical release arrangements, film rights sub-licensing and game distribution. The Group also provides corporate secretarial consultancy services. As disclosed in the Company's 2008 annual report, the Group operates in a highly competitive home video products market and faces challenges from illegal internet downloads and piracy. Also, there has been a lack of major video titles released in year 2008, and there has been a further decrease in the number of theatrical film releases. Such factors have largely driven the Group to seek diversification of business into new areas of high-growth potential. Opportunities in the energy resources sector have been considered by the Directors as an area with positive outlook in the long term. Also, the Directors have been seeking opportunities in the mining and infrastructure equipment manufacturing sector. Upon Completion, the Company is expected to benefit from the equipment manufacturing technology and expertise of the Target Group, and be able to enter into the mining equipment manufacturing market in the PRC. With the continuous development in the PRC, the Directors expect the demand for energy in the PRC would keep increasing, resulting in increasing volume of coal production in the PRC. At the same time, the PRC government has put more emphasis on improving general mining safety in order to reduce or avoid fatal and other serious mining accidents, which prompt mining enterprises to invest in establishing facilities to ensure safety in production. The growth of the coal mining industry in the PRC, combined with more emphasis on increasing the safety of the mining industry create opportunities for equipment manufacturers. Therefore, the Directors consider that the Target Group's business prospects are promising and the Acquisition presents an opportunity for the Company to broaden its income stream by entering into the coal mining equipment business. The Directors (including all the independent non-executive Directors) consider that the Acquisition is in the interests of the Company and it is in line with the Group's business development strategies.

SUMMARY

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As set out in the shareholding table under the section headed “Change of shareholding structure of the Company” in the “Letter from the Board”, immediately upon completion of the Acquisition, and assuming that there have been no other changes in the issued share capital of the Company since the Latest Practicable Date, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company. Accordingly, the Vendor and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of the Company (other than those already owned or agreed to be acquired by the Vendor and its Concert Parties).

The Vendor will apply to the Executive for the Whitewash Waiver, and the Executive has indicated, subject to application to be made by the Vendor, that it will grant the Whitewash Waiver, the granting of which will be subject to, among other things, (1) approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM where voting on the relevant resolution(s) shall be taken by poll; (2) the Vendor and its Concert Parties not having acquired any voting rights of the Company in the six months prior to the date of the Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Acquisition under the Agreement; and (3) the Vendor and its Concert Parties not having any acquisitions or disposals of voting rights of the Company between the date of the Announcement and completion of the Acquisition unless with prior consent of the Executive.

PLACING

As set out in the “Letter from the Board” of this circular, the external financing by the Purchaser and/or the Vendor in an amount of not less than HK\$200 million, and the maintaining of 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares, are two of conditions precedent for Completion.

In order to maintain 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares, the Company proposes to conduct the Placing to issue new Shares which also achieves the purpose of raising sufficient financing to meet the condition precedent.

SUMMARY

PLACING

The Company intends to enter into placing agreement(s) with relevant placing agent(s) and/or placees setting out detailed rights and obligations of parties, and final terms in respect of the Placing when the result of the EGM is known. On this basis, the Company expects that placing agreement(s) will be entered into soon after the EGM. Further announcement(s) will be made in accordance with the GEM Listing Rules when the Company enters into placing agreement(s). The final terms of the Placing will be agreed between the Company and relevant placing agent(s) and/or placees after arm's length negotiations. The Placing will be entered into on normal commercial terms.

Accordingly, the Board proposes to seek approval from the Independent Shareholders for the Placing and the issue of the Placing Shares by means of a resolution to be proposed at the EGM. The resolution will authorise the Board to determine and deal with, at its discretion and with full authority, matters relating thereto (including, but not limited to, the specific timing of the issue, final number of new Shares to be issued, offering mechanism, issue price (subject to the minimum set out in the resolution), target placees and the number and proportion of Shares to be issued to each placee). If the approval is granted, it will remain in effect until the earliest of (i) 30 September 2010; and (ii) the date upon which such authority is revoked or varied by an ordinary resolution of the Independent Shareholders in a general meeting of the Company. Details of the proposed terms of the Placing are out in the sub-section headed "Placing" in the "Letter from the Board" of this circular.

ISSUE OF REMUNERATION SHARES

Somerley is a financial adviser to the Company regarding the Acquisition and the Whitewash Waiver and the sponsor to the new listing application of the Company. Pursuant to an engagement letter dated 25 May 2009 entered into between the Company and Somerley (the "Engagement Letter"), and having considered the financial position of the Company and to minimize further cash outlays, it was agreed between the Company and Somerley that part of professional fees in an amount of US\$175,000 charged by Somerley on project basis in respect of the provision of financial advisory services to the Company would be settled by the issue of Remuneration Shares to it. The professional fees were agreed after arm's length negotiations and by reference to market rate for similar types of advisory services. A total of 838,581 Remuneration Shares were issued to Somerley as at the Latest Practicable Date. Out of the 838,581 Remuneration Shares issued, 388,000 Remuneration Shares were issued at an issue price of HK\$0.2 each (a rounded-up price by reference to the 30-day VWAP prior to the date of the engagement) to settle an amount of US\$10,000 due to Somerley (details of which were set out in the Company's announcement dated 3 June 2009). A further 450,581 Remuneration Shares were issued at an issue price of HK\$0.258 each (equivalent to the 30-day VWAP prior to the release of the Company's announcement dated 20 November 2009) to settle an amount of US\$15,000 due to Somerley (details of which are set out in the Company's announcement dated 20 November 2009). An additional amount of US\$50,000 will be settled by the issue of the Remuneration Shares following the release of this circular approving,

SUMMARY

among other things, the Agreement and the Whitewash Waiver at an issue price equivalent to the 30-day VWAP prior to the release of this circular. This represents the same underlying basis used for determining the issue price for the first and second batches of Remuneration Shares as set out above. For illustration purpose only, based on an issue price of HK\$0.717 each and exchange rate of US\$1 to HK\$7.77, it is estimated that 541,841 Remuneration Shares will be issued in this regard. Further Remuneration Shares will be issued at HK\$0.291 each (which is equal to the issue price for the Consideration Shares) to Somerley to settle the success fee (payable on the commencement of trading of the Consideration Shares) of US\$100,000. It is estimated that 2,663,230 Remuneration Shares will be issued (subject to change in exchange rate) in this regard. Such final batch of Remuneration Shares will be allotted and issued under a specific mandate to be sought by the Company at the EGM. Application will be/has been (as the case may be) made to the Listing Division of the Stock Exchange in respect of such listing of, and permission to deal in, the Remuneration Shares.

As at the Latest Practicable Date, Somerley and its associates were interested in 838,581 Shares (representing approximately 0.21% of the issued share capital of the Company as at the Latest Practicable Date). The Company will seek the grant of a specific mandate to allot and issue the final batch of Remuneration Shares in an amount of US\$100,000 at the EGM. Somerley is required to abstain from voting at the EGM in this regard.

ADOPTION OF NEW ARTICLES

In order to give more flexibility to the Directors and the Company and in view of amendments made to the GEM Listing Rules on various dates, as well as to modernise and update the Articles, the Company proposes to adopt a new set of Articles instead of making piecemeal amendments. Summary of the material changes brought about by the adoption of the new Articles and the full terms of the amendments to the Articles are set out in appendices VIII and IX to this circular respectively.

In accordance with article 166 of the existing Articles, the adoption of the new Articles will be subject to the approval of the Shareholders by way of special resolution at the EGM. No Shareholder is required to abstain from voting at the EGM in respect of the special resolution for the adoption of new Articles.

SUMMARY OF FINANCIAL INFORMATION

The following sets out a summary of the financial results of the Target Group, which including (i) the audited consolidated results of the Target for the period from 22 February 2007 (date of incorporation) to 31 December 2007, for the two years ended 31 December 2008 and 2009; and (ii) the audited results for Zhengzhou Siwei for each of the three years ended 2007, 2008 and 2009. This summary should be read in conjunction with the accountants' report on the Target Group set out in Appendix I to this circular. Further financial information of the Target Group is set out in the section headed "Financial information of the Target Group" of this circular.

SUMMARY

(a) **Results of the Target Group**

Audited consolidated results of the Target for the period from 22 February 2007 (date of incorporation) to 31 December 2007, for the years ended 31 December 2008 and 2009

	22.2.2007 to 31.12.2007 <i>HK\$'000</i>	1.1.2008 to 31.12.2008 <i>HK\$'000</i>	1.1.2009 to 31.12.2009 <i>HK\$'000</i>
Turnover	138,156	1,108,286	1,404,769
Cost of goods sold	<u>(111,043)</u>	<u>(959,974)</u>	<u>(1,172,838)</u>
Gross profit	27,113	148,312	231,931
Other income	1,233	24,351	53,668
Selling expenses	(12,300)	(47,964)	(67,735)
Administrative expenses	(4,756)	(31,246)	(37,699)
Other operating expenses	<u>(17)</u>	<u>(1,780)</u>	<u>(2,937)</u>
Profit from operations	11,273	91,673	177,228
Share of profit of an associate	3,784	–	–
Finance costs	<u>(626)</u>	<u>(12,765)</u>	<u>(20,066)</u>
Profit before tax	14,431	78,908	157,162
Income tax expense	<u>(155)</u>	<u>(16,103)</u>	<u>(26,227)</u>
Profit for the period/year attributable to the owner of the Target	<u>14,276</u>	<u>62,805</u>	<u>130,935</u>
Other comprehensive income			
Exchange differences on translating foreign operations	<u>1,242</u>	<u>10,433</u>	<u>–</u>
Other comprehensive income for the period/year, net of tax	<u>1,242</u>	<u>10,433</u>	<u>–</u>
Total comprehensive income for the period/year attributable to the owner of the Target	<u><u>15,518</u></u>	<u><u>73,238</u></u>	<u><u>130,935</u></u>
Earnings per share			
Basic	<u>14,276</u>	<u>62,805</u>	<u>130,935</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

SUMMARY

(b) **Results of the Zhengzhou Siwei**

Audited results of Zhengzhou Siwei for each of the three years ended 2007, 2008 and 2009

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	563,531	1,008,540	1,236,197
Cost of goods sold	<u>(459,997)</u>	<u>(873,576)</u>	<u>(1,032,098)</u>
Gross profit	103,534	134,964	204,099
Other income	6,744	22,158	47,324
Selling expenses	(39,221)	(43,647)	(59,606)
Administrative expenses	(16,097)	(28,390)	(33,136)
Other operating expenses	<u>(1,191)</u>	<u>(1,619)</u>	<u>(2,584)</u>
Profit from operations	53,769	83,466	156,097
Finance costs	(2,232)	(3,295)	(8,107)
Loss on disposal of a subsidiary	<u>(30,565)</u>	<u>–</u>	<u>–</u>
Profit before tax	20,972	80,171	147,990
Income tax expense	<u>(2,343)</u>	<u>(14,654)</u>	<u>(23,080)</u>
Profit for the year and total comprehensive income for the year attributable to equity holders of Zhengzhou Siwei	<u><u>18,629</u></u>	<u><u>65,517</u></u>	<u><u>124,910</u></u>

As set out above, Zhengzhou Siwei has experienced rapid growth for the last several years. Revenue has been more than doubled in two years, growing from RMB563.5 million in 2007 to RMB1,236.2 million in 2009, with a CAGR of 48.1%.

SUMMARY

RISK FACTORS

RISKS RELATING TO THE ACQUISITION

- The Acquisition constitutes an investment in new business sector and may pose significant challenges to the Group's administrative, financial and operational resources.
- Completion of the Acquisition is subject to conditions precedent set out in the Agreement having been fulfilled and there is no assurance that all of the conditions precedent can be fulfilled.
- There will be substantial dilution of the shareholding percentages of the existing Shareholders in the Company immediately following completion of the Acquisition.
- The shareholding percentages of existing Shareholders in the Company will be further diluted if the Company issues additional Shares and/or equity securities in the future.
- The Enlarged Group may be involved in legal disputes and/or litigation with IMM in relation to the RFO and the RFR.

RISKS RELATING TO THE ENLARGED GROUP

- Any decline in the ability of the operating subsidiaries of the Target Group, which will become the Company's principal operating subsidiaries immediately following Completion, to pay dividends to the Company would materially and adversely affect the Company's cash flow.
- The Enlarged Group may not be able to obtain additional funding or generate sufficient cash from its operations to fund capital requirements.
- The Vendor itself will have substantial influence over the Enlarged Group and its interests may be different from those of other Shareholders.
- The businesses and operations of the Enlarged Group may be materially disrupted or adversely affected due to force majeure and other causes.
- The business of the Enlarged Group depends substantially on the continuing efforts of its senior management and executive officers and its ability to attract and retain qualified management team.
- Failure to comply with PRC regulations relating to the registration of overseas direct investment by PRC shareholder of the Company may subject the Company to sanctions.

SUMMARY

RISKS RELATING TO THE TARGET GROUP'S BUSINESS AND THE INDUSTRIES IN WHICH THE TARGET GROUP OPERATE

- Dependence on the level of coal exploration and production activities in the PRC and reliance on the PRC market.
- The recent global economic crisis may materially and adversely affect the business, financial condition and results of the Target Group.
- Future changes in laws, regulations or policies in the PRC may materially and adversely affect the business operations of the Target Group.
- The preferential tax treatment on high and new technology enterprise the Target Group currently enjoys may be discontinued.
- The Target Group's operations are dependent on the availability of an adequate supply of, and the price of, raw materials.
- The Target Group outsources the production of certain components and parts and certain of production process to local subcontractors, and any material disruption to the supply of products from subcontractors would materially and adversely affect the operating results of the Target Group.
- Drop of gross profit margin during the Track Record Period.
- The Target Group's outstanding trade receivables and the turnover days of the Target Group's trade receivables have been increasing during the Track Record Period.
- Intense competition may reduce the profitability and market share of the Target Group.
- The Target Group sells its products primarily with the assistance of Zhengzhou Siwei Mechanical and Electrical Sales Co., Ltd, and any material disruption to the operations of it or its relationship with the Target Group would materially, and adversely affect the operating results of the Target Group.
- The Target Group has limited insurance coverage for its assets or business interruption, and may incur damages which could result in material adverse effect on its business.

SUMMARY

- Certain properties of the Target Group in the PRC are subject to legal irregularities.
- The Target Group has not processed construction projects approval procedures for some of the construction projects.
- While the Target Group are paying social insurance and housing fund for the employees, defects exist.
- The continued growth and prospect of the Target Group depends on its research and development ability to achieve technological innovation.
- The Target Group may lack adequate production capacity to meet further customer demand for its products, which could lead to decline in its operating results and loss of market share.
- Significant and continuous capital investment are required by the business of the Target Group which may not be completed as planned and may materially and adversely affect the Target Group's financial condition.
- The Target Group provides cross guarantees to banks in respect of banking facilities granted to independent third parties, and may be liable to the banks if the counter parties default on their loans.
- The Target Group may not be able to adequately protect its intellectual property, which could materially and adversely affect its business operations.
- Business of the Target Group with respect to its production process is vulnerable to power shortages.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

- Changes in PRC's economic, political and social conditions, as well as government policies, could materially and adversely affect the business, financial condition, prospects and operating results of the Enlarged Group.
- After Completion, the Company and the Target may be treated as resident enterprises for PRC tax purposes under the new enterprise income tax law, which could result in the imposition of 25% PRC enterprise income tax payable on their taxable global income.

SUMMARY

- After Completion, if the Company and the Target are treated as non-resident enterprises of PRC, dividends received from their PRC subsidiary may be subject to PRC withholding tax.
- Implementation of the new PRC Labour Contract Law may increase labour costs for the Enlarged Group.
- It may be difficult to effect service of process upon the directors or the management of the Enlarged Group who reside in the PRC, or to enforce any judgment obtained from non-PRC courts against them in the PRC.
- Interpretation and enforcement of PRC laws and regulations involves uncertainties, which could materially and adversely affect the business of the Enlarged Group.
- Any occurrence of severe contagious disease in the PRC or elsewhere may cause damage to economies, financial markets and business activities in the PRC and elsewhere, which in turn could result in material adverse effect on the business of the Enlarged Group.

RISK RELATING TO THIS CIRCULAR

- Certain statistics and other information relating to the economy and the industry contained in this circular were derived from various official sources and government publications and may not be reliable.

SPONSOR AND INDEPENDENT FINANCIAL ADVISER

Somerley has been appointed as Sponsor of the new listing application of the Company.

Access Capital has been appointed as independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Placing, the Whitewash Waiver and the issue of final batch of Remuneration Shares.

SUMMARY

RECOMMENDATIONS

The Independent Board Committee, after taking into account the advice from Access Capital, the independent financial adviser, considers that the terms of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Placing and the issue of final batch of Remuneration Shares are fair and reasonable, and both the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares are in the interests of the Company and the Shareholders as a whole and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares.

The executive Directors consider that the terms of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Placing and the issue of final batch of Remuneration Shares are fair and reasonable, and both the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver and the issue of final batch of Remuneration Shares.

The Board considers that the adoption of new Articles is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the special resolution to be proposed at the EGM to approve the adoption of new Articles.

The text of the letter from the Independent Board Committee is set out on pages 69 to 70 of this circular. The text of the letter from Access Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons which it has taken into account in arriving at its advice is set out on pages 71 to 108 of this circular.

DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Share pursuant to the Agreement
“Agreement”	the conditional sale and purchase agreement dated 9 October 2009 entered into between the Vendor and the Purchaser relating to the sale and purchase of the Sale Share (as amended or supplemented from time to time)
“AIC”	American Investors In China, LLC, a limited liability company organised under the laws of the State of Florida of the United States, which is owned as to 90% in aggregate by Mr. Williams and his family while the remaining 10% is owned by an independent third party
“Announcement”	the announcement of the Company dated 21 September 2009 and published on the website of the Stock Exchange
“Articles”	the articles of association of the Company, as may be amended from time to time
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	means a day (other than a Saturday or Sunday) on which banks are generally open for business in Hong Kong
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and carried on by HKSCC
“Company”	ERA Holdings Global Limited 年代國際控股有限公司 (formerly known as Era Information & Entertainment Limited (年代資訊影視有限公司)), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on GEM
“Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

DEFINITIONS

“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Completion”	completion of the Agreement
“Concert Parties”	parties acting in concert within the meaning of the Takeovers Code
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration Shares”	4,000,000,000 Shares with voting rights to be allotted and issued to the Vendor or its nominees to settle the consideration for the Acquisition
“Controlling Shareholders”	has the meaning ascribed thereto under the GEM Listing Rules and unless the context requires otherwise, refers to MML and each of its beneficial owners (whose names are disclosed in the section headed “Relationship with the Controlling Shareholders”) who, together, will control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of the Company, immediately upon completion of the Acquisition
“Deed of Indemnity”	a deed of indemnity dated 28 June 2010 given by the Controlling Shareholders and Mr. Li Rubo in favour of the Purchaser for itself and as trustee for its current and future affiliates, the respective officers, directors, employees, agents, attorneys, accountants, advisors and representatives of such entities and the respective successors and assigns of such entities, including but not limited to each of the members of the Enlarged Group, details of which are disclosed in the sub-paragraph headed “Estate duty and other indemnities” in Appendix VI to this circular
“Deed of Non-competition”	a deed of non-completion dated 28 June 2010 entered into by the Controlling Shareholders and Mr. Li Rubo in favour of the Company (for itself and as trustee of its current and future subsidiaries from time to time), details of which are disclosed in the section headed “Relationship with the Controlling Shareholders”
“Director(s)”	director(s) of the Company
“EGM”	extraordinary general meeting of the Company to be convened for approving, among other things, the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing, the issue of final batch of Remuneration Shares and the adoption of new Articles

DEFINITIONS

“Enlarged Group”	the Group together with the Target Group
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of the Executive Director
“GDP”	gross domestic product
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“GFT”	G. F. Transnational, Inc., a corporation organised under the general corporation law of California of the United States with limited liability, which is wholly-owned by Mr. Li Rubo
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards, which set out the accounting principles applicable in Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IMM”	International Mining Machinery Holdings Limited (formerly known as TJCC IMM Holdings Ltd.), an exempted company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange since 10 February 2010
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Chan Sze Hon, Mr. Christopher John Parker and Mr. David Marc Boulanger, constituted to make recommendations to the Independent Shareholders in respect of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares
“Independent Financial Adviser” or “Access Capital”	Access Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

DEFINITIONS

“Independent Shareholders”	(a) in respect of the Agreement, the Whitewash Waiver and the Placing: Shareholders, other than (i) the Vendor, its Concert Parties and their respective associates; (ii) Mr. Lee Jong-Dae (who is involved in negotiations of the Agreement) and his associates; (iii) Somerley; and (iv) those who were involved in or interested in the Agreement, the Whitewash Waiver and the Placing; and (b) in respect of the issue of final batch of Remuneration Shares: Shareholders other than Somerley
“Key Target”	Key Target Holdings Limited, a company incorporated in Hong Kong with limited liability, which is owned as to 60% by GFT and as to 40% by AIC
“Key Target Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 16 April 2009 entered into between AIC, GFT and the Purchaser relating to the sale and purchase of the entire equity interest in Key Target
“Latest Practicable Date”	28 June 2010, being the latest practicable date for the purpose of ascertaining certain information in this circular
“Memorandum”	the memorandum of association of the Company, as may be amended from time to time
“MML”	Mining Machinery Ltd (formerly known as International Mining Machinery Limited), a company incorporated in Mauritius, which holds 100% of the equity interest in the Target
“Mr. Thompson”	Mr. James Edward Thompson III
“Mr. Williams”	Mr. WILLIAMS Emory
“Placing”	the proposed placing of the Placing Shares
“Placing Shares”	up to 1.2 billion new Shares, which may be allotted and issued by the Company pursuant to the Placing
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Directors”	Mr. WILLIAMS Emory and Mr. LI Rubo, who will be appointed as Directors upon Completion

DEFINITIONS

“Proposed Transactions”	the proposed transactions contemplated under the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares
“Purchaser”	Vasky Energy Ltd., a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Remuneration Shares”	new Shares which were and to be (as the case may be) issued to settle part of professional fees charged by Somerley pursuant to an engagement letter dated 25 May 2009 entered into between the Company and Somerley
“SACMS”	the State Administration of Coal Mine Safety (國家煤礦安全監察局)
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sale Share”	100% of the issued share capital of the Target owned by the Vendor before Completion
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Sponsor” or “Somerley”	Somerley Limited, the financial adviser and sponsor to the Company and a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers

DEFINITIONS

“Target”	International Mining Machinery Siwei Holdings Limited, a company incorporated in Hong Kong with limited liability
“Target Group”	the Target and Zhengzhou Siwei
“Track Record Period”	the three financial years ended 31 December 2007, 2008 and 2009
“Vendor”	MML, the vendor of the Sale Share
“Whitewash Waiver”	a waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of the Vendor and its Concert Parties to make a mandatory general offer for all the Shares not already or agreed to be acquired by them as a result of the procurement of the Company to issue and allot the Consideration Shares
“Zhengzhou Siwei”	鄭州四維機電設備製造有限公司 (Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd.), a company incorporated in the PRC and a wholly-owned subsidiary of the Target
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“sq.m.”	square metres
“KRW”	Korea Won, the lawful currency of South Korea
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent.

DEFINITIONS

For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi and United States dollars into Hong Kong dollars is based on the approximate exchange rates of RMB0.88 to HK\$1 and US\$1 to HK\$7.8 respectively.

Those exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts Hong Kong dollars, RMB or US\$ have been, could have been or may be converted at such or any other rates or at all.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

CORPORATE INFORMATION

The following sets out the corporate information relating to the Enlarged Group immediately following completion of the Acquisition:

Registered office	Cricket Square Hutchins Drive, P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands British West Indies
Head office in PRC/Headquarters	7 JinSuo Rd. High and New Technology Industries Development Zone Zhengzhou, Henan 450001 People's Republic of China
Principal place of business in Hong Kong	Room 9B 9th Floor, Shun Ho Tower 24-30 Ice House Street Central Hong Kong
Company secretary	Mr. Leung Ka Wo
Compliance officer	Mr. Lee Jong-Dae
Audit committee	Mr. Chan Sze Hon <i>(Chairman of the Audit Committee)</i> Mr. Christopher John Parker Mr. David Marc Boulanger
Remuneration committee	Mr. Chan Sze Hon <i>(Chairman of the Remuneration Committee)</i> Mr. Christopher John Parker Mr. David Marc Boulanger
Authorised representatives	Mr. Lee Jong-Dae 6B South Bay Tower, 59 South Bay Road, Hong Kong Mr. Leung Ka Wo 10C, Admiralty Height, Belair Garden, Shatin, Hong Kong

CORPORATE INFORMATION

Auditor	RSM Nelson Wheeler Certified Public Accountants 29th Floor, Caroline Centre Lee Gardens Two 28 Yun Ping Road Hong Kong
Compliance adviser	Partners Capital International Limited Room 3906, 39th Floor COSCO Tower 183 Queen's Road Central Hong Kong
Principal banker	DBS Bank (Hong Kong) Limited 11/F., The Centre 99 Queen's Road Central Hong Kong
Principal share registrar and transfer office	Bank of Bermuda (Cayman) Limited P.O. Box 513 GT Strathvale House North Church Street George Town Grand Cayman Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Company's website	www.eraholdings.com.hk (information contained in this website does not form part of this circular)

DIRECTORS

The following were the Directors as at the Latest Practicable Date:

Name	Address	Nationality
<i>Existing executive Directors</i>		
Mr. Lee Jong-Dae (李鍾大) (Chairman)	6B South Bay Tower, 59 South Bay Road, Hong Kong	Korean
Mr. Lee Sung Min (Note)	303 HO, 1023 Dong, Jugong Apartment, Joongang-Dong, Kwacheon-Si, Kyunggi-do Korea	Australian
Mr. Kim Beom Soo (Note)	610-1303 LG Village Apt. Seongbok-Dong, Yongin-Si, Kyunggi-Do Korea	Korean

Note: It is proposed that Mr. Lee Sung Min and Mr. Kim Beom Soo will resign as Directors following Completion.

Existing independent non-executive Directors

Mr. Chan Sze Hon (陳思翰)	Flat H, 26/F, Tower 3, Ocean Shores, 88 O King Road, Tseung Kwan O Hong Kong	Chinese
Mr. Christopher John Parker	9 Tamarind Road, South Forbes Park, Makati City, Philippines 1200	British
Mr. David Marc Boulanger (柏大衛)	11/F, Block F, 12 Scenic Villa Drive, Pok Fu Lam Hong Kong	Canadian

DIRECTORS

The following are the Directors immediately following Completion:

Name	Address	Nationality
<i>Proposed executive Directors</i>		
Mr. Lee Jong-Dae (李鍾大) (Chairman)	6B South Bay Tower, 59 South Bay Road, Hong Kong	Korean
Mr. Emory Williams	Park Avenue Tower 1, 31-D 6 Chaoyangongyuan Nanlu Chaoyang District Beijing 100026 PRC, China	American
Mr. Li Rubo	No. 402 Unit 4, Building 13, Qianniwa Block 2, Fengtai District, Beijing	Chinese
<i>Proposed independent non-executive Directors</i>		
Mr. Chan Sze Hon (陳思翰)	Flat H, 26/F, Tower 3, Ocean Shores, 88 O King Road, Tseung Kwan O Hong Kong	Chinese
Mr. Christopher John Parker	9 Tamarind Road, South Forbes Park, Makati City, Philippines 1200	British
Mr. David Marc Boulanger (柏大衛)	11/F, Block F, 12 Scenic Villa Drive, Pok Fu Lam Hong Kong	Canadian

PARTIES INVOLVED

Financial adviser and Sponsor to the Company

Somerley Limited
10th Floor, The Hong Kong
Club Building
3A Chater Road
Central
Hong Kong

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

Access Capital Limited
Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Legal advisers to the Company

as to Hong Kong Law:
Orrick, Herrington & Sutcliffe
43th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to PRC Law:
Commerce & Finance Law Offices
6th Floor, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing 100022
PRC

as to Cayman Islands Law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PARTIES INVOLVED

Reporting accountant

RSM Nelson Wheeler
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

Property valuer

Greater China Appraisal Limited
Room 2703, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

LETTER FROM THE BOARD



ERA Holdings Global Limited

年代國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8043)

Executive Directors:

Mr. Lee Jong-Dae (*Chairman*)

Mr. Lee Sung Min

Mr. Kim Beom Soo

Independent Non-executive Directors:

Mr. Chan Sze Hon

Mr. Christopher John Parker

Mr. David Marc Boulanger

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

British West Indies

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

Room 9B

9th Floor, Shun Ho Tower

24-30 Ice House Street

Central

Hong Kong

30 June 2010

To the Shareholders

Dear Sir or Madam,

- (1) VERY SUBSTANTIAL ACQUISITION
(2) CONNECTED TRANSACTION
(3) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(4) APPLICATION FOR WHITEWASH WAIVER
(5) ISSUE OF REMUNERATION SHARES
(6) PLACING
AND
(7) ADOPTION OF NEW ARTICLES**

INTRODUCTION

It was announced that on 20 November 2009, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement for the Purchaser to acquire from the Vendor the Sale Share, which represents the entire issued share capital of the Target. It was further announced that the Purchaser and the Vendor enter into a supplemental deed on 31 March 2010 to amend certain terms of the Agreement. The aggregate consideration for the Acquisition payable by the Purchaser to the Vendor shall be HK\$1,164,000,000, which shall be satisfied by procuring

LETTER FROM THE BOARD

the Company to issue 4,000,000,000 Consideration Shares at an issue price of HK\$0.291 per Consideration Share to the Vendor at Completion. The Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules. Immediately upon completion of the Acquisition, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company and become a controller of the Company. Accordingly, pursuant to Rule 20.13(1)(b)(i) of the GEM Listing Rules, the Acquisition also constitutes a connected transaction for the Company. The Agreement and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders under the GEM Listing Rules.

In addition, the Acquisition and the transactions contemplated under the Agreement constitute a reverse takeover for the Company under Rule 19.06(6)(a) of the GEM Listing Rules. Accordingly, the Company will be treated as if it were a new listing applicant. The Acquisition and transactions contemplated under the Agreement are therefore also subject to the approval by the Listing Division of the Stock Exchange of a new listing application to be made by the Company. Somerley has been appointed as the sponsor in respect of the new listing application of the Company. As previously announced, the new listing application was submitted to the Stock Exchange on 22 January 2010. The Listing Division of the Stock Exchange has given its approval in principle of the new listing application of the Company.

Immediately upon completion of the Acquisition and the Placing, and assuming that there have been no other changes in the issued share capital of the Company since the Latest Practicable Date, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company. Accordingly, the Vendor and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of the Company (other than those already owned or agreed to be acquired by the Vendor and its Concert Parties). The Vendor will apply to the Executive for the Whitewash Waiver.

The external financing by the Purchaser and/or the Vendor in an amount of not less than HK\$200 million, and the maintaining of 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares, are two of conditions precedent for Completion. Accordingly, the Board proposes to seek approval from the Independent Shareholders for the Placing to fulfil such conditions. In addition to compliance with Rule 11.23(7) of the GEM Listing Rules, the Company will ensure the compliance with Rules 11.23(2)(b) and 11.23(8) of the GEM Listing Rules upon Completion.

LETTER FROM THE BOARD

Parties including (a) the Vendor, its Concert Parties and their respective associates (interested in 7,742,284 Shares, representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date; (b) Mr. Lee Jong-Dae and his associates (including Wah Hong Investment Limited (interested in 18,000,000 Shares, representing approximately 4.49% of the issued share capital of the Company as at the Latest Practicable Date)); (c) Somerley (interested in 838,581 Shares, representing approximately 0.21% of the issued share capital of the Company as at the Latest Practicable Date); and (d) those who were involved in or interested in the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver and the Placing are required to abstain from voting on the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver and the Placing at the EGM. Somerley is also required to abstain from voting on the issue of final batch of Remuneration Shares in an amount of US\$100,000 at the EGM.

The Board also proposes to adopt the new Articles. No Shareholder is required to abstain from voting at the EGM in respect of the special resolution for the adoption of new Articles.

The purpose of this circular is to provide the Shareholders with further information about (a) the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares); (b) the Whitewash Waiver; (c) the Placing; (d) the issue of Remuneration Shares; and (e) the adoption of the new Articles, and to give a notice to the Shareholders of the EGM. This circular also provides additional information on the Target Group as required under the GEM Listing Rules in connection with the new listing application.

THE AGREEMENT

Date: 9 October 2009 (as amended by a supplemental deed dated 31 March 2010)

LETTER FROM THE BOARD

Parties:

- (a) Vasky Energy Ltd., (as the Purchaser); and
- (b) MML (as the Vendor)

As at the date of the Agreement, MML was beneficially owned as follows:

	<i>Approximate %</i>
(1) Mr. Williams, his spouse and relatives	
Mr. Williams (<i>Notes 1 & 2</i>)	4.69
Madam Liu Jie, spouse of Mr. Williams (<i>Note 3</i>)	0.94
James Schroeder, brother-in-law of Mr. Williams	8.67
Griffin Schroeder, nephew of Mr. Williams (<i>Notes 1 & 2</i>)	0.79
Janet Schroeder, niece of Mr. Williams	0.20
Charles Schroeder, nephew of Mr. Williams	0.20
Carol Schroeder, sister of Mr. Williams (<i>Note 2</i>)	1.47
Bliss Browne, sister of Mr. Williams	1.47
Janet Harrison, sister of Mr. Williams (<i>Note 2</i>)	1.47
Nelle Temple-Brown, sister of Mr. Williams	1.47
	<hr/>
sub-total:	21.37
(2) Mr. Li Rubo, his spouse and relatives (collectively, “Li Family”)	
Mr. Li Rubo (<i>Note 1</i>)	26.05
Madam Li Shuzi, spouse of Mr. Li Rubo	9.48
Li Changjing, brother of Madam Li Shuzhi	8.91
Li Rugang, brother of Mr. Li Rubo	8.52
	<hr/>
sub-total:	52.96
(3) Management of Zhengzhou Siwei	19.67
(4) Three individuals, who are independent from the Company and the shareholders as listed in (1) to (3) above	6.00
	<hr/>
	100.00
	<hr/> <hr/>

LETTER FROM THE BOARD

Notes:

1. In July 2008, 3,200,000 options were granted to each of (i) Mr. Williams, (ii) Griffin Schroeder, a nephew of Mr. Williams, and (iii) Mr. Li Rubo as rewards for and in recognition of their contribution to the Group. Such options confer them with rights to subscribe for 9,600,000 Shares in aggregate.
2. In September 2008, the Company issued 1% convertible bonds with principal amount of approximately HK\$21.7 million for general working capital of the Company or development of any suitable projects. Power Castle Development Ltd., a company owned and managed by Mr. Williams on trust for and on behalf of his extended family members, subscribed for and hold these convertible bonds with principal amount of HK\$7,175,000 at an initial conversion price of HK\$0.35 per Share that can be converted into 20,500,000 Shares. Mr. Williams holds approximately 21.7%, 54.4%, 21.7% and 2.2% of the entire interests in Power Castle Development Ltd. on trust for and on behalf of his extended family members, namely, Janet Harrison (sister of Mr. Williams), Carol Schroeder (sister of Mr. Williams), Griffin Schroeder (nephew of Mr. Williams) and Emory Williams Senior (father of Mr. Williams), respectively.
3. Madam Liu Jie, the spouse of Mr. Williams, beneficially owns 7,742,284 Shares which were issued in February 2009 by the Company pursuant to a share subscription agreement. Other than being the spouse of Mr. Williams and a Shareholder, Madam Liu Jie has no relationship with the Company.

Save for Madam Liu Jie as disclosed in note 3 above, none of the ultimate beneficial owners of MML have been a Shareholder of the Company during the period between 22 March 2009, being six months prior to the date of the Announcement, and up to and including the Latest Practicable Date.

Subsequent to the date of the Agreement, on 18 March 2010, Mr. Williams, with the consent of the Li Family, executed a deed of transfer to transfer the legal and beneficial interests of 52.96% in MML held by Mr. Williams on trust for and on behalf of the Li Family to Mr. Thompson, the son-in-law of Mr. Li Rubo, at a total consideration of US\$1 as gift to Mr. Thompson. On the same date, Mr. Williams, with the consent of the management of Zhengzhou Siwei and the three individuals who are independent from the other shareholders of MML, executed a deed of transfer to transfer the legal and beneficial interests of 25.67% in MML held by Mr. Williams on trust for them to Mr. Thompson at a total consideration of US\$38,505,000. The consideration was determined with reference to the percentage of their beneficial interests in Zhengzhou Siwei and Zhengzhou Siwei was valued at approximately US\$150 million at the time of the transfer. The above-mentioned transfers of interests in MML to Mr. Thompson took effect on 29 March 2010 and Mr. Thompson becomes the beneficial owner of a total of 78.63% legal and beneficial interest of MML for himself without holding such interests of MML on trust for any person since then. The said transfers took place (i) for the purpose of Mr. Li's estate planning; and (ii) as the Li Family, the management of Zhengzhou Siwei and the three individuals do not intend to have any interests in a company which would be listed in Hong Kong. There were no other agreements which triggered the said transfers. Mr. Thompson was not a Shareholder of the Company up to and including the Latest Practicable Date.

LETTER FROM THE BOARD

As at the Latest Practicable Date, MML was beneficially owned as follows:

	<i>Approximate %</i>
(1) Mr. Williams and his relatives	
Mr. Williams	5.63
James Schroeder, brother-in-law of Mr. Williams	8.67
Griffin Schroeder, nephew of Mr. Williams	0.79
Janet Schroeder, niece of Mr. Williams	0.20
Charles Schroeder, nephew of Mr. Williams	0.20
Carol Schroeder, sister of Mr. Williams	1.47
Bliss Browne, sister of Mr. Williams	1.47
Janet Harrison, sister of Mr. Williams	1.47
Nelle Temple-Brown, sister of Mr. Williams	1.47
	<hr/>
sub-total:	21.37
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(2) Mr. Thompson, the son-in-law of Mr. Li Rubo	78.63
	<hr/>
	100.00
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The Vendor is an investment holding company.

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after making all reasonable enquiries:

- (a) each of (i) Mr. Williams, (ii) Griffin Schroeder, a nephew of Mr. Williams, and (iii) Mr. Li Rubo held 3,200,000, 3,200,000 and 3,200,000 options, respectively, which confer them with rights to subscribe for 9,600,000 Shares in aggregate;
- (b) Power Castle Development Ltd., a company owned and managed by Mr. Williams on trust for and on behalf of his extended family members, held convertible bonds of the Company in the principal amount of HK\$7,175,000 with 1% coupon rate maturing on 29 September 2013 which can be converted into 20,500,000 Shares at an initial conversion price of HK\$0.35 per Share. Mr. Williams holds approximately 21.7%, 54.4%, 21.7% and 2.2% of the entire interests in Power Castle Development Ltd. on trust for and on behalf of his extended family members, namely, Janet Harrison (sister of Mr. Williams), Carol Schroeder (sister of Mr. Williams), Griffin Schroeder (nephew of Mr. Williams) and Emory Williams Senior (father of Mr. Williams), respectively; and
- (c) Madam Liu Jie, the spouse of Mr. Williams, beneficially owned 7,742,284 Shares which were issued in February 2009 by the Company pursuant to a share subscription agreement.

LETTER FROM THE BOARD

The Vendor and its ultimate beneficial owners established a relationship with the Company starting from May 2008. In July 2008, the Company entered into a memorandum of understanding regarding the possible acquisition of a company principally owned by Mr. Li Rubo which owns certain coal mining operations in Sakhalin, Russia (the “Russian Mine Project”). It was stated in the announcement of the Company dated 7 July 2008 that the consideration of approximately HK\$112 million (subject to additional payment based on the target group’s performance in calendar year 2011, valuation, due diligence and negotiation) will be provided by the Company through the issue of either shares or convertible securities. As at the Latest Practicable Date, refundable deposits in a total amount of approximately US\$2.4 million have been paid by the Company in connection with the possible acquisition of the Russian Mine Project. The Company announced on 19 March 2009 that the long stop date for the closing of such possible acquisition has been extended to 31 December 2009. The Company further announced on 31 December 2009 that such date has been extended to 30 June 2010. The completion of the above transaction was delayed because additional time is required to complete due diligence review on the target group, which includes but not limited to the review on the financial results of the target group for the year ended 31 December 2009. If by 30 June 2010, being the scheduled completion date of the Russian Mine Project, (i) the due diligence review is not completed; (ii) a legally binding agreement is not executed between the parties; and (iii) completion of such legally binding agreement in accordance with the terms thereof does not take place, and the parties to the Russian Mine Project cannot agree to further extension of the completion date of the Russian Mine Project to beyond 30 June 2010, the Russian Mine Project will lapse. As the Company has decided to focus on the Acquisition and would not pursue the Russian Mine Project further, the Directors do not intend to further extend the long stop date for the Russian Mine Project upon expiry on 30 June 2010. As none of (i) to (iii) above has been completed as of the Latest Practicable Date, and Mr. Li Rubo, as the principal owner of the Russian Mine Project, has indicated that he has no present intention to further extend the completion date of the Russian Mine Project to beyond 30 June 2010, the Board considers that it is unlikely for the Russian Mine Project to proceed to completion. Should the Russian Mine Project materialise or lapse, announcement will be made by the Company as and when appropriate in accordance with the GEM Listing Rules.

The Directors consider that in the event that the Company acquires the Russian Mine Project, hydraulic roof supports and other related products can be supplied by the Target Group to the coal mines of the Russian Mine Project. It was stated in the announcement of the Company dated 7 July 2008 that the consideration of approximately HK\$112 million (subject to additional payment based on the target group’s performance in calendar year 2011, valuation, due diligence and negotiation) would be provided by the Company through the issue of either Shares or convertible securities. As no definitive agreement has been signed and the binding terms with respect to such possible acquisition have not been determined as at the Latest Practicable Date, the detailed dilutive effect on Shareholders cannot be ascertained by the Company at this stage.

LETTER FROM THE BOARD

In addition, as disclosed in the announcements of the Company dated 21 April and 5 May 2009 and the circular of the Company dated 25 May 2009, on 16 April 2009, the Purchaser entered into the Key Target Sale and Purchase Agreement with AIC and GFT (together as the “Sellers”), pursuant to which the Purchaser conditionally agreed to purchase the entire issued share capital of Key Target. Key Target will acquire 50% equity interest in 西安東方福星機械有限公司 (Xi’an Eastern Star Electric-Mechanical Limited Liability Company) (“Eastern Star”) from the Sellers. The consideration of HK\$2,800,000 will be settled in full by the issue of convertible bonds by the Company to the Sellers at an initial conversion price of HK\$0.20 per Share. AIC is owned as to 90% in aggregate by Mr. Williams and his family whilst the remaining 10% is owned by an independent third party. GFT is wholly-owned by Mr. Li Rubo. Upon completion of the Key Target Sale and Purchase Agreement, AIC and GFT will receive convertible bonds in a principal amount of HK\$1,120,000 and HK\$1,680,000 respectively. On 30 September 2009, the Company further announced that the Purchaser and the Sellers entered into a supplemental agreement to extend the date for fulfilling the conditions precedent to the completion of the Key Target Sale and Purchase Agreement to on or before 31 December 2009 or such later date as may be agreed by the parties to the Key Target Sale and Purchase Agreement. On 31 December 2009, the Company announced that such date has been extended to on or before 30 June 2010 (or such later date as may be agreed by the parties) pursuant to a supplemental agreement entered into between the Purchaser and the Sellers. Completion of the above transaction is conditional upon the satisfaction of various conditions precedent set out in the Key Target Sale and Purchase Agreement, details of which have been disclosed in the announcements of the Company dated 21 April and 5 May 2009 and the circular of the Company dated 25 May 2009. In particular, as China Xi’an Eastern Machinery Factory and Beijing Stich Co., being the other existing shareholders of Eastern Star other than the Sellers, have been granted pre-emptive rights in respect of the equity interests of Eastern Star, the transfer of 50% equity interest in Eastern Star from the Sellers to Key Target, which is a condition precedent to completion of the Key Target Sale and Purchase Agreement, would require the waiver of such pre-emptive rights from China Xi’an Eastern Machinery Factory and Beijing Stich Co. As at the Latest Practicable Date, China Xi’an Eastern Machinery Factory and Beijing Stich Co. have not yet granted such waiver to the Sellers and the Company understands that the parties are still in negotiation regarding the same. If such waiver is not granted to the Sellers on or before 30 June 2010, being the scheduled long stop date for fulfilling conditions of the Key Target Sale and Purchase Agreement, and the parties to the Key Target Sale and Purchase Agreement cannot agree to further extension of the long stop date for fulfilling conditions of the Key Target Sale and Purchase Agreement, the acquisition contemplated under the Key Target Sale and Purchase Agreement will lapse. As the Company has decided to focus on the Acquisition and would not pursue the acquisition of Key Target and/or Eastern Star, the Directors do not intend to further extend the long stop date for the acquisition of Key Target and/or Eastern Star upon expiry on 30 June 2010. Since as of the Latest Practicable Date, the Sellers have not yet obtained the required consent, and the Sellers have indicated that they have no present intention to further extend the long stop date of fulfilling conditions of the Key Target Sale and Purchase Agreement to beyond 30 June 2010, the Board considers that it is unlikely for the acquisition of Key Target and Eastern Star to proceed to completion if the required consent is not obtained on or before 30 June 2010. Should the acquisition of Key Target and/or Eastern Star materialise or lapse, announcement will be made by the Company as and when appropriate in accordance with the GEM Listing Rules.

LETTER FROM THE BOARD

As set out above, should the transaction proceed, the consideration of HK\$2,800,000 will be settled in full by the issue of convertible bonds by the Company at an initial conversion price of HK\$0.20 per Share. Accordingly, 14,000,000 Shares will be issued in this regard (representing approximately 3.5% of the issued share capital of the Company as at the Latest Practicable Date and approximately 3.4% of the issued share capital of the Company as enlarged by the issue of conversion shares upon full conversion of the convertible bonds without taking into account the issue of the Consideration Shares, the Placing Shares, the Remuneration Shares, and the full conversion of all outstanding convertible bonds of the Company). As at the Latest Practicable Date, the above transaction has yet to be completed and accordingly, the convertible bonds have not yet been issued. Upon completion of the transaction, the Group will own the entire issued share capital of Key Target which will own 50% interest in Eastern Star. Eastern Star manufactures in the PRC a line of machinery and related moulds for making concrete masonry products, modular concrete products and other building materials. Although Eastern Star and Zhengzhou Siwei manufactures different products, the Directors intend to explore and utilize opportunities to achieve synergies including streamlining the supply chains of both companies, for example, in the procurement of steel.

The business operations of both Eastern Star and the Russian Mine Project are self-sufficient. Also, as understood by the Company from the respective vendors, there are no substantial capital expenditures anticipated for the Russian Mine Project and Key Target operation for 2010 and 2011 that would require funding from their respective shareholders. On this basis, the Directors consider that completion of acquisition of Key Target and the Russian Mine Project will not have material adverse impact of the working capital of the Group.

Save for the above, to the best of the knowledge, information and belief of the Directors after making all reasonable enquiries, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Assets to be acquired:

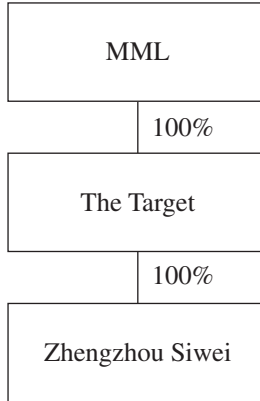
The Purchaser has conditionally agreed to acquire from the Vendor the Sale Share, which represents 100% of the issued share capital of the Target free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances or third-party rights of any nature and with all dividends, benefits and other rights as at the date of the Agreement or thereafter becoming attached or accruing thereto as from the date of the Agreement.

Further information on the Target Group is set out in the section headed “Information on the Target Group” below.

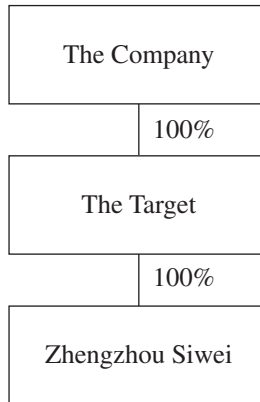
LETTER FROM THE BOARD

Set out below is the ownership structure of the Target Group as at the date of the Agreement and immediately after Completion:

As at the date of the Agreement



Immediately after Completion



LETTER FROM THE BOARD

The Target has been 100% held by MML since 23 March 2007. Set out below were changes in the beneficial interest in MML since such date up to the date of this circular:

	As at 20 April 2007 (Note 1)		As at 24 September 2007 (Note 2)	As at 29 March 2010 and date of this circular (Note 3)
Ultimate beneficial owners of MML				
(1) Mr. Emory Williams, his spouse and relatives:	Interest in MML	Effective interest in Zhengzhou Siwei (by reason of MML's interest in Zhengzhou Siwei)	Interest in MML	Interest in MML
Mr. Williams	33.28%	8.32%	4.69%	5.63%
Madam Liu Jie, spouse of Mr. Williams	3.76%	0.94%	0.94%	Nil
James Schroeder brother-in-law of Mr. Williams	34.68%	8.67%	8.67%	8.67%
Griffin Schroeder, nephew of Mr. Williams	3.16%	0.79%	0.79%	0.79%
Janet Schroeder, niece of Mr. Williams	0.80%	0.20%	0.20%	0.20%
Charles Schroeder, nephew of Mr. Williams	0.80%	0.20%	0.20%	0.20%
Carol Schroeder, sister of Mr. Williams	5.88%	1.47%	1.47%	1.47%
Bliss Browne, sister of Mr. Williams	5.88%	1.47%	1.47%	1.47%
Janet Harrison, sister of Mr. Williams	5.88%	1.47%	1.47%	1.47%
Nelle Temple-Brown, sister of Mr. Williams	5.88%	1.47%	1.47%	1.47%
sub-total:	100.00%	25.00%	21.37%	21.37%
(2) Mr. Li Rubo, his spouse and relatives:		Direct interest in Zhengzhou Siwei		
Mr. Li Rubo		55.33%	26.05%	Nil
Madam Li Shuzi, spouse of Mr. Li Rubo		Nil	9.48%	Nil
Li Changjing, brother of Madam Li Shuzhi		Nil	8.91%	Nil
Li Rugang, brother of Mr. Li Rubo		Nil	8.52%	Nil
Mr. Thompson, son-in-law of Mr. Li Rubo		Nil	Nil	78.63%
sub-total:		55.33%	52.96%	78.63%
(3) Management of Zhengzhou Siwei:				
Wang Fu, the chairman of Zhengzhou Siwei		10.77%	11.44%	Nil
Ma Baozhu, a manager of Zhengzhou Siwei		3.65%	3.65%	Nil
Wang Baoming, a manager of Zhengzhou Siwei		0.78%	0.78%	Nil
Yang Zhenfu, a manager of Zhengzhou Siwei		3.80%	3.80%	Nil
sub-total:		19.0%	19.67%	Nil
(4) three individuals, who are independent from the Company and the shareholders as listed in (1) to (3) above:				
Zhang Wei		Nil	1.00%	Nil
Pan Yimin		Nil	1.00%	Nil
Li Junlu		Nil	4.00%	Nil
sub-total:		Nil	6.00%	Nil
Other individual		0.67%	Nil	Nil
Total		100%	100%	100%

LETTER FROM THE BOARD

Notes:

1. On 20 April 2007, the Target acquired 25% interest in Zhengzhou Siwei. At the same time, Mr. Williams on one part, and his spouse and relatives on the other part, entered into certain declarations of trust pursuant to which Mr. Williams declared and confirmed that he was holding part of his interests in Zhengzhou Siwei (including interest held by an entity controlled by him) on trust for his spouse and relatives. Further details of the trust arrangement are set out in the paragraph headed “Trust arrangement among the beneficial owners of MML” under the section headed “History and background of the Target Group” of this circular. It should be noted that at the relevant time, MML only had 25% interest in Zhengzhou Siwei. The left column under Note 1 sets out the level of beneficial interest of the relevant parties in MML level, whilst the right column under Note 1 sets out the level of effective interest of the relevant parties in Zhengzhou Siwei.
2. In April and September 2007, Mr. Li Rubo on one part, and Mr. Li Rubo’s spouse and relatives, certain management of Zhengzhou Siwei and three individuals in sub-group (4) on the other part, entered into certain declarations of trust pursuant to which Mr. Li Rubo declared and confirmed that he was holding part of his interests in Zhengzhou Siwei on trust for his spouse and relatives, certain management of Zhengzhou Siwei and three individuals in sub-group (4). While the spouse and relatives of Mr. Li Rubo, certain management shareholders of Zhengzhou Siwei and three individual shareholders entrusted Mr. Li Rubo to exercise the shareholders’ rights in Zhengzhou Siwei, Mr. Li Rubo in turn executed a power of attorney dated 21 September 2007, which is effective from 1 June 2007 to 31 May 2012 in favour of Mr. Williams to exercise on his behalf such rights vested in Mr. Li Rubo pursuant to the said declarations of trust entered into Mr. Li Rubo in April and September 2007. Further details of the trust arrangement are set out in the paragraph headed “Trust arrangement among the beneficial owners of MML” under the section headed “History and background of the Target Group” of this circular. On 24 September 2007, the Target acquired the remaining 75% interest in Zhengzhou Siwei and Zhengzhou Siwei became a wholly-owned subsidiary of the Target.
3. In March 2010, Madam Lin Jie, the Li Family and all persons in sub-groups (3) and (4) above, who do not intend to have any interests in a company which would be listed in Hong Kong, transferred their respective beneficial interests in MML to Mr. Thompson, the son-in-law of Mr. Li Rubo.

LETTER FROM THE BOARD

Consideration:

The aggregate consideration for the Acquisition payable by the Purchaser to the Vendor shall be HK\$1,164,000,000, which shall be satisfied by procuring the Company to issue 4,000,000,000 Consideration Shares at an issue price of HK\$0.291 per Consideration Share to the Vendor at Completion. The consideration has been determined after arm's length negotiations between the Purchaser and the Vendor by reference to the performance and prospects of the Target Group, as well as the price earning multiple of comparable companies. The consideration represents a price earning multiple of certain times of the unaudited profit and total comprehensive income attributable to equity holders of Zhengzhou Siwei prepared in accordance with HKFRS for the year ended 31 December 2008. It also represents a historical price earning multiple of approximately 8.9 times of the Target Group's audited consolidated profit attributable to the owner of the Target for the year ended 31 December 2009 of approximately HK\$130.9 million. The Company is optimistic about the future prospects of the Target Group as detailed in the section headed "Reasons for and benefits of the Acquisition" below and the consideration included a premium after taking into account for the growth potential of the Target Group.

According to the Target Group's consolidated accounts as at 31 December 2009 as set out in the accountants' report included as Appendix I to this circular, the Target was indebted to an independent third party creditor in the principal amount of US\$17,393,000 (equivalent to approximately HK\$135.7 million) bearing interest at 8% per annum and compound annually together with interest accrued in the amount of approximately US\$2,564,000 (equivalent to approximately HK\$20.0 million). Interest in the amount of approximately US\$711,000 (equivalent to approximately HK\$5.5 million) was further accrued since 1 January 2010 up to the Latest Practicable Date. Such loan was provided for the acquisition of Zhengzhou Siwei in 2007 and working capital purpose. The Vendor has pledged its interest in the Sale Share to such independent third party creditor as security for repayment of the said debt. It is one of the conditions precedent to Completion that external financing will be obtained by the Purchaser and/or the Vendor to repay such loan. At the time of borrowing, the creditor was IMM, a company listed on the Main Board of the Stock Exchange. Pursuant to the prospectus of IMM dated 29 January 2010, as part of the reorganization, such loan together with interest receivables had been assigned by IMM to TJCC Holdings Ltd., a controlling shareholder of IMM. Further details of the loan are set out in the paragraph headed "Information on the Target Group" below in this letter. In April 2010, the loan and accrued interest due to TJCC Holdings Ltd. were partially repaid by bridge loans from Mr. Williams, Williams Realty Co, LLC, and Mr. Li Rubo of approximately US\$3,437,000 (equivalent to approximately HK\$26.8 million) and US\$3,011,000 (equivalent to approximately HK\$23.5 million) respectively. The total outstanding loan and accrued interest due by the Target due to TJCC Holdings Ltd. as at the Latest Practicable Date were approximately US\$14.0 million (equivalent to approximately HK\$109.2 million) and US\$180,000 (equivalent to approximately HK\$1.4 million) respectively. As at the Latest Practicable Date, the principal amount of the bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC was approximately US\$6.4 million (equivalent to approximately HK\$49.9 million) bearing interest at 8% per annum and compound annually. The outstanding accrued interests of the bridge loans was approximately US\$83,000 (equivalent to approximately HK\$647,000) as at the Latest Practicable Date. The Company intends to conduct fund raising exercises to raise the amount necessary to repay the bridge loans from Mr. Williams and one of his companies, Mr. Li Rubo and the outstanding amount due to TJCC Holdings Ltd. Further details of the fund raising exercises are set out in the section headed "Placing" below in this letter.

LETTER FROM THE BOARD

Notwithstanding the fact that the Target acquired Zhengzhou Siwei for a total consideration of approximately RMB97.1 million in 2007, the Directors (including all the independent non-executive Directors) consider that the consideration of HK\$1,164 million plus the repayment of (a) loans (including accrued interest) due from the Target to TJCC Holdings Ltd.; and (b) loans (including accrued interest) due from Mr. Williams, Williams Realty Co, LLC and Mr. Li Rubo by the Company is fair and reasonable to the Company and the Shareholders, and justifiable because:

- (i) the consideration plus the repayment of the loans has been determined after arm's length negotiations between the Purchaser and the Vendor;
- (ii) the Group has been suffering losses for the last three financial years (2007: loss of approximately HK\$17.4 million, 2008: loss of approximately HK\$27.2 million and 2009: loss of approximately HK\$30.9 million) whereas the Target recorded profits for the Track Record Period. Accordingly, the Directors (including all the independent non-executive Directors) are of the view that the Acquisition can strengthen the financial position of the Group and the Acquisition is in the interests of the Company and the Shareholders;
- (iii) the consideration will be wholly satisfied by allotment and issuance of the Consideration Shares. This is in the interests of the Group as it facilitates the Group, which is still loss making, to acquire the entire interest over a business that is profit making without cash outlay;
- (iv) the issue price of HK\$0.291 per Consideration Share is at a premium over the closing price of the Shares as quoted on the Stock Exchange of HK\$0.233 per Share on 8 October 2009, being the last full trading day (the "Last Full Trading Day") immediately prior to the suspension in trading of the Shares at 3:40 p.m. on 9 October 2009, and the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.233 per Share for the five consecutive trading days ended on the Last Full Trading Day;
- (v) it is disclosed in the "Industry Overview" section of this circular that according to a research report on China Coal Mining Machinery Industry issued by the China National Coal Machinery Industry Association, the total sales value of hydraulic roof supports increased from approximately RMB9.4 billion in 2007 to RMB10.8 billion in 2008, representing an increase of 15.6%. The turnover of Zhengzhou Siwei in 2008 increased by approximately 79.0% as compared to 2007. Accordingly, Zhengzhou Siwei outperformed the industry market; and
- (vi) the consideration for the Acquisition together with repayment of loans (including accrued interests) from TJCC Holdings Ltd., Mr. Williams, Williams Realty Co, LLC and Mr. Li Rubo of approximately HK\$1,325.2 million represents a historical price earning multiple of approximately 10.1 times of the Target Group's audited consolidated profit attributable to owner of the Target for the year ended 31 December 2009 of approximately HK\$130.9 million which is below the low end of the range of price earning multiples of comparable companies identified by the independent financial adviser. Details of its advice are set out on pages 71 to 108 of this circular.

LETTER FROM THE BOARD

The Consideration Shares shall be issued to the Vendor or its nominees upon Completion. The Consideration Shares represent (a) approximately 9.98 times of the total number of issued Shares of 400,706,581 Shares as at the Latest Practicable Date; and (b) approximately 71.38% of the issued share capital of the Company as enlarged upon the issue of the Consideration Shares, maximum number of the Placing Shares and the Remuneration Shares but before full conversion of all outstanding convertible bonds of the Company, details of which are set out in the section headed “Change of shareholding structure of the Company” below.

The price at which the Consideration Shares are to be issued was determined with reference to then market price and prospects of the Enlarged Group. The issue price of HK\$0.291 per Consideration Share represents:

- (i) a discount of 3.0% to the closing price of the Shares as quoted on the Stock Exchange of HK\$0.3 per Share, being the last price at which the Shares were traded immediately prior to the suspension in trading of the Shares at 3:40 p.m. on 9 October 2009;
- (ii) a premium of approximately 24.9% over the closing price of the Shares as quoted on the Stock Exchange of HK\$0.233 per Share on 8 October 2009 (i.e. the Last Full Trading Day);
- (iii) a premium of approximately 24.9% over the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.233 per Share for the five consecutive trading days ended on the Last Full Trading Day;
- (iv) a premium of approximately 17.8% over the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.247 per Share for the thirty consecutive trading days ended on the Last Full Trading Day; and
- (v) a premium of approximately 939.3% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.028 per Share based on the audited consolidated net asset value of the Group attributable to the Shareholders of approximately HK\$10.8 million as at 31 December 2008 and the issued share capital of 384,000,000 Shares as at 31 December 2008. As at 31 December 2009, the audited consolidated net liabilities attributable to the Shareholders was HK\$0.039 per Share based on the audited consolidated net liabilities value of the Group attributable to the Shareholders of approximately HK\$15.7 million as at 31 December 2009 and the issued share capital of 399,562,581 Shares as at 31 December 2009; and
- (vi) a discount of approximately 55.9% to the closing price of the Shares as quoted on the Stock Exchange of HK\$0.66 per Share on the Latest Practicable Date.

LETTER FROM THE BOARD

Based on the closing price of HK\$0.233 per Share on the Last Full Trading Day and closing price of HK\$0.66 per Share on the Latest Practicable Date, the aggregate value of the Consideration Shares was HK\$932 million and HK\$2,640 million respectively.

The Consideration Shares will be issued fully paid and will rank pari passu in all respects with all other Shares in issue at the date of their issue. An application has been made by the Company to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the EGM.

Conditions precedent:

Completion of the Agreement will be conditional upon certain conditions precedent set out in the Agreement having been fulfilled. Such conditions precedent include the following:

- (i) the Purchaser having confirmed that it is satisfied with its due diligence review of the operations, legal and financial affairs of the Target Group in all material respects;
- (ii) the obtaining of all consents (includes any licence, approval, authorisation, permission, waiver, order or exemption in any jurisdiction including but not limited to Hong Kong, the PRC, the British Virgin Islands and Mauritius) required for the entering into or the implementation or completion of the Agreement by the Purchaser, the Vendor and/or any member of the Target Group or for the performance of their respective obligations under the Agreement, including, without limitation, the consents (includes any licence, approval, authorisation, permission, waiver, order or exemption in any jurisdiction including but not limited to Hong Kong, the PRC, the British Virgin Islands and Mauritius) (if appropriate or required) of the shareholders of the Purchaser, the Vendor and/or any member of the Target Group (if applicable), the Stock Exchange and the Securities and Futures Commission and all filings with any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, or elsewhere which are required or appropriate for the entering into and the implementation of the Agreement having been made;
- (iii) the approval by the Independent Shareholders at the EGM of (1) the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares); (2) the Whitewash Waiver; and (3) transactions contemplated under the Agreement;
- (iv) the Executive granting the Whitewash Waiver to the Vendor;
- (v) the approval of new listing of the Shares on GEM by the Stock Exchange as a result of the transactions proposed under the Agreement;

LETTER FROM THE BOARD

- (vi) the approval of the listing of, and permission to deal in, the Consideration Shares on GEM by the Stock Exchange;
- (vii) the receipt of a letter of undertaking in such form as satisfactory to the parties to the Agreement issued by a third party creditor to release the pledged security of the Target in favour of such third party creditor after repayment of loans due from the Target or its principals to such third party creditor in relation to the principal amount together with interest accrued up to the date of repayment (details of which are set out in the paragraph headed “Consideration” under the section headed “The Agreement” above);
- (viii) the obtaining of external financing by the Purchaser and/or the Vendor by way of capital market fund raising or other means in an amount not less than HK\$200 million which would be used, among other things, to repay the loan and accrued interests due from the Target to a third party creditor (details of which are set out in the paragraph headed “Consideration” under the section headed “The Agreement” above), the bridge loans, and the balance to be used for capital expenditures of the Target Group and working capital of the Company and the Target Group;
- (ix) the Company continuing to meet the 25% minimum public float requirements under Rule 17.36 of the GEM Listing Rules immediately after Completion and upon issuance of the Consideration Shares; and
- (x) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a firm of PRC legal advisers appointed by the Purchaser in relation to the Agreement and the transactions contemplated thereunder, including but not limited to the due incorporation and property interests of Zhengzhou Siwei and such other matters as may be reasonably required by the Purchaser in relation to Zhengzhou Siwei.

The Purchaser may waive condition (i), (vii) or (viii) at its absolute discretion. None of the conditions can be waived by the Vendor without the consent of the Purchaser. In particular, condition (iii) and (iv) may not be waived by either of the parties. The Company undertakes that it will not waive the condition precedent (viii). As at the Latest Practicable Date, no condition precedent has been fulfilled or waived.

In the event that any of the conditions precedent are not fulfilled on or before 31 December 2010 (or such later date as may be agreed between the Vendor and the Purchaser), the Agreement shall terminate and neither of the parties to the Agreement shall have any claim against the other for costs, damages, compensation or otherwise (save with respect to any breach to the clause of the Agreement stating that the Vendor and the Purchaser shall each use their respective best endeavours to procure the fulfilment of the conditions as set out in the Agreement as soon as possible), unless otherwise agreed between the parties to the Agreement.

LETTER FROM THE BOARD

Completion:

Completion shall take place on the third Business Day immediately after the fulfilment of the conditions precedent as set out in the Agreement (or such other date as the parties to the Agreement may agree in writing).

INFORMATION ON THE TARGET GROUP

The Target Group manufactures in the PRC hydraulic roof supports designed for underground coal mining. Zhengzhou Siwei was a domestic enterprise established on 9 June 2003 in the PRC with limited liability pursuant to the reorganisation of 鄭州黃河電動車製造廠 (Zhengzhou Huanghe Electric Vehicle Manufacturing Factory). On 20 March 2007, the then equity holder of Zhengzhou Siwei entered into a share transfer agreement with the Target whereby the then equity holder of Zhengzhou Siwei agreed to sell a 25% equity interest in Zhengzhou Siwei to the Target for a consideration of approximately RMB24.3 million. As a result, Zhengzhou Siwei became a Sino-foreign equity joint venture on 20 April 2007. Pursuant to a share transfer agreement dated 17 September 2007, all the then individual equity holders of Zhengzhou Siwei agreed to sell their entire 75% equity interest in Zhengzhou Siwei to the Target for a consideration of approximately RMB72.8 million. As a result of the acquisition of the 75% equity interest by the Target, Zhengzhou Siwei became a wholly-owned foreign enterprise on 24 September 2007.

The Target is an investment holding company. Its sole investment is the investment in Zhengzhou Siwei which was financed by loans from the Vendor and an independent third party creditor. The Target carries out the business through Zhengzhou Siwei and has no other operation. The Target Group's principal production facilities are located in Zhengzhou, Henan Province, the PRC. It has obtained ISO9001:2000 certification for its quality management system in respect of the design development, production and service of the fittings and the hydraulic roof supports. It manufactures four major types of roof supports (two-leg support, four-leg chock support, sub-level caving powered shield and face-end hydraulic roof supports). In long wall mining operations, hydraulic roof supports are used to support the mine roof so as to protect the mining personnel and equipment, and play an integral role in advancing the mine face following each pass of the shearer. The Target Group sold all its products to domestic customers, including domestic mining companies during the Track Record Period.

LETTER FROM THE BOARD

An interest free loan owing from the Target to the Vendor in the amount of approximately US\$2,950,000 (equivalent to approximately HK\$23.0 million) was outstanding as at 31 December 2009. Pursuant to the Agreement (as amended by a supplemental deed dated 31 March 2010 entered into between the Purchaser and the Vendor), upon Completion, such loan shall be (i) waived by the Vendor or; (ii) capitalised by way of the Target issuing additional share(s) of the Target to the order of the Vendor who shall procure such additional share(s) of the Target to be (i) issued in the name of the Purchaser or its nominee; or (ii) if issued to the Vendor, be transferred to the Purchaser or its nominee, simultaneously with the Sale Share. Such loan from the Vendor (whose funds were provided by Mr. Li Rubo, Mr. Williams and Mr. Williams' extended family) to the Target was provided for the acquisition of Zhengzhou Siwei in 2007. The loans from Mr. Li Rubo, Mr. Williams and Mr. Williams' extended family to the Vendor are interest free and repayable on demand.

It is disclosed in the paragraph headed "Consideration" under the section headed "The Agreement" above that the Target was indebted to an independent third party creditor in the principal amount of US\$17,393,000 (equivalent to approximately HK\$135.7 million) bearing interest at 8% per annum and compound annually together with interest accrued in the amount of approximately US\$2,564,000 (equivalent to approximately HK\$20.0 million) as at 31 December 2009. Interest in the amount of approximately US\$711,000 (equivalent to approximately HK\$5.5 million) was further accrued since 1 January 2010 up to the Latest Practicable Date. At the time of borrowing, the creditor was IMM, a company listed on the Main Board of the Stock Exchange. Pursuant to the prospectus of IMM dated 29 January 2010, as part of the reorganization, such loan together with interest receivables had been assigned by IMM to TJCC Holdings Ltd., a controlling shareholder of IMM. IMM and TJCC Holdings Ltd. were not a Shareholder during the period commencing six months prior to the date of the Announcement and up to the Latest Practicable Date. The Company understands from the Vendor that no principal repayment or interest payment has been made by the Target since the drawdown of the loans up to 31 December 2009. The Target borrowed US\$10,193,000 and US\$7,200,000 (equivalent to approximately HK\$79.5 million and HK\$56.2 million respectively) from IMM (subsequently assigned to TJCC Holdings Ltd.) in December 2007 and June 2008 respectively and the loans were provided for the acquisition of Zhengzhou Siwei in 2007 and working capital purpose. The Company understands from the Vendor that partial repayment of such loans due to TJCC Holdings Ltd. of approximately US\$3,437,000 (equivalent to approximately HK\$26.8 million) and partial repayment of the interests accrued in the amount of approximately US\$3,011,000 (equivalent to approximately HK\$23.5 million) were made to TJCC Holdings Ltd. in April 2010 (by offsetting the dividend payment from IMM to Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC) by bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC. As at the Latest Practicable Date, the total outstanding loan and accrued interest amount due by the Target to TJCC Holdings Ltd. were approximately US\$14.0 million and US\$180,000 (equivalent to approximately HK\$109.2 million and HK\$1.4 million respectively). As at the Latest Practicable Date, the principal amount of the bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC was approximately US\$6.4 million (equivalent to approximately HK\$49.9 million) bearing interest at 8% per annum and compound annually. The outstanding accrued interests of the bridge loans was approximately US\$83,000 (equivalent to approximately HK\$647,000) as at the Latest Practicable Date.

LETTER FROM THE BOARD

According to the audited accounts of the Target Group prepared in accordance with HKFRS, the audited consolidated turnover for the period from 22 February 2007 (date of incorporation of the Target) to 31 December 2007, and for the two years ended 31 December 2008 and 2009 were approximately HK\$138.2 million, HK\$1,108.3 million and HK\$1,404.8 million respectively. The audited consolidated profit before tax for the corresponding periods were approximately HK\$14.4 million, HK\$78.9 million and HK\$157.2 million respectively and the audited consolidated profit attributable to the owner of the Target were approximately HK\$14.3 million, HK\$62.8 million and HK\$130.9 million respectively. The audited consolidated net assets attributable to the owner of the Target was approximately HK\$219.7 million as at 31 December 2009.

Further information on the Target Group and its business is set out in the sections headed “History and background of the Target Group” and “Business of the Target Group” of this circular. Financial information of the Target Group is set out in the section headed “Financial information of the Target Group” of this circular

It is disclosed in the accountants’ report on Zhengzhou Siwei as set out in Appendix I to this circular that as Zhengzhou Siwei has no control and influence to 焦作四維液壓機械有限公司 (Jiaozuo Siwei Hydraulic Machinery Company Limited) (“Jiaozuo Siwei”) and 寶雞星源機電設備製造有限公司 (Baoji Xingyuan Mechanical & Electrical Equipment Manufacturing Company Limited) (“Baoji Siwei”) after Zhengzhou Siwei’s disposals of these companies in 2007, Zhengzhou Siwei’s management has not been able to gather sufficient information to consolidate Jiaozuo Siwei’s results, up to the respective date of disposal into the financial statements and to account for the result of Baoji Siwei in the financial statements by the equity method of accounting. This is not in accordance with the requirements of HKAS 27 “Consolidated and Separate Financial Statements” and HKAS 28 “Investments in Associates” issued by the Hong Kong Institute of Certified Public Accountants. The reporting accountants of Zhengzhou Siwei are unable to quantify the effect on the departure from the requirements of the relevant Hong Kong Accounting Standards (the “Modified Audit Opinion”).

Taking into account that (i) Jiaozuo Siwei and Baoji Siwei were disposed of in 2007, such disposals have no further impact on the earnings of Zhengzhou Siwei for the two years ended 31 December 2008 and 2009; and (ii) the reporting accountants of the Target issue unqualified audit opinion in respect of consolidated financial results of the Target Group for the period from 22 February 2007 (date of incorporation) to 31 December 2007 and for the two years ended 31 December 2008 and 2009, the Directors (including the independent non-executive Directors) consider that the Acquisition is in the interests of the Company and the Shareholders as a whole despite of the Modified Audit Opinion.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company and the Group is principally engaged in home video distribution, theatrical release arrangements, film rights sub-licensing and game distribution. The Group also provides corporate secretarial consultancy services. As disclosed in the Company's 2008 annual report, the Group operates in a highly competitive home video products market and faces challenges from illegal internet downloads and piracy. Also, there has been a lack of major video titles released in year 2008, and there has been a further decrease in the number of theatrical film releases. Such factors have largely driven the Group to seek diversification of business into new areas of high-growth potential. Opportunities in the energy resources sector have been considered by the Directors as an area with positive outlook in the long term. Also, the Directors have been seeking opportunities in the mining and infrastructure equipment manufacturing sector. Upon Completion, the Company is expected to benefit from the equipment manufacturing technology and expertise of the Target Group, and be able to enter into the mining equipment manufacturing market in the PRC. With the continuous development in the PRC, the Directors expect the demand for energy in the PRC would keep increasing, resulting in increasing volume of coal production in the PRC. At the same time, the PRC government has put more emphasis on improving general mining safety in order to reduce or avoid fatal and other serious mining accidents, which prompt mining enterprises to invest in establishing facilities to ensure safety in production. The growth of the coal mining industry in the PRC, combined with more emphasis on increasing the safety of the mining industry create opportunities for equipment manufacturers. Therefore, the Directors consider that the Target Group's business prospects are promising and the Acquisition presents an opportunity for the Company to broaden its income stream by entering into the coal mining equipment business. The Directors (including all the independent non-executive Directors) consider that the Acquisition is in the interests of the Company and it is in line with the Group's business development strategies.

The Directors (including all the independent non-executive Directors) are of the view that the terms of the Agreement, which have been agreed after arm's length negotiations between the Company and the Vendor, are on normal commercial terms and such terms are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Immediately following completion of the Acquisition, the Target Group will be wholly-owned by the Group and the results of the Target Group will be consolidated into the accounts of the Group.

LETTER FROM THE BOARD

As set out in the consolidated statement of financial position of the Group contained in Appendix II to this circular, the Group had audited net liabilities attributable to the Shareholders of approximately HK\$15.7 million as at 31 December 2009. Based on the net liabilities attributable to the Shareholders as at 31 December 2009 and assuming completion of the Acquisition and the Placing having been taken place on 31 December 2009, the unaudited pro forma net assets attributable to the Shareholders will be approximately HK\$962.5 million as shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group contained in Appendix III to this circular.

The Group recorded an audited consolidated loss attributable to the Shareholders of approximately HK\$17.4 million, HK\$27.2 million and HK\$30.9 million in 2007, 2008 and 2009 respectively. Zhengzhou Siwei recorded an audited profit attributable to its equity holder of approximately RMB18.6 million, RMB65.5 million and RMB124.9 million in 2007, 2008 and 2009 respectively. Given the profit track record of Zhengzhou Siwei, the Acquisition is expected to enlarge the earning base of the Group in the future. Based on the audited consolidated loss attributable to the Shareholders for the year ended 31 December 2009 and assuming completion of the Acquisition having been taken place on 1 January 2009, the unaudited pro forma profit attributable to the Shareholders will be approximately HK\$323.9 million as shown in the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group contained in Appendix III to this circular.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Company believes that, despite the current global economic downturn, economic growth in the PRC in the mid-to-long term will remain strong. With the implementation of proactive fiscal and monetary policies by the PRC government, the PRC economy has shown signs of improvement recently. Continued economic growth in the PRC would stimulate the demand for electricity which, in turn, would drive increased demand for coal in the PRC. The growth of PRC coal demand combined with the coal mining industry's emphasis on increasing the safety and productivity of the coal mining industry creates continued opportunities for equipment manufacturers. Accordingly, the Directors are confident in the long-term prospects of the Target Group and consider the Acquisition beneficial to the prospects of the Group.

FUTURE INTENTIONS OF THE VENDOR REGARDING THE GROUP

Following Completion, the Vendor intends that the Company will shift its business focus to the manufacturing of hydraulic roof supports and related products, and the Target Group will become the principal assets and operations of the Company.

LETTER FROM THE BOARD

The Vendor is conducting a detailed review of the existing business and staff structure of the Group to become as efficient as possible in its core business. Subject to the review, the Vendor intends to continue the employment of employees for the continuity of the Group's existing business. The Vendor does not have any plan for redeployment of the fixed assets of the Group as at the Latest Practicable Date, but the Company may seek to attract into the holding structure of the Target Group and/or the Company strategic industry investors of international standing in the mining equipment manufacturing industry if the Board considers such investors could materially assist the Target Group to realise its expansion plans. The Vendor has received expressions of interest from a number of such investors over the past several years. However, no agreement has been reached for any strategic investment and, bearing in mind the complexities encountered in previous discussions and their time consuming nature, it is not possible to predict whether such an agreement can be satisfactorily concluded in the foreseeable future. Nevertheless, the Vendor sees substantial potential advantages in a shareholding with a suitable group of international standing and will continue to explore this possibility. In addition, or as an alternative, to an investment, the Company may seek access to intellectual property of a company of international standing through a licensing or similar co-operative agreement. As part of its efforts to build a strategic relationship with an international mining machinery producer, the Target Group has been working to qualify itself as supplier on international long wall mining projects. To that end, during preliminary testing of products that it may wish to produce for the international market, it has signed an agreement not to disclose any proprietary technology or manufacturing processes supplied to the Target Group. The Target Group's efforts in this regard are still in the due diligence phase and no binding commitments have been made yet either by the Target Group or any potential strategic partner to work together on international projects.

PLACING

As stated above, the external financing by the Purchaser and/or the Vendor in an amount of not less than HK\$200 million, and the maintaining of 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares, are two of conditions precedent for Completion.

In order to maintain 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares, the Company proposes to issue new Shares. Based on existing shareholding structure and the issue of 4 billion Consideration Shares to the Vendor, approximately 1,059 million new Shares have to be issued. The issue of new Shares also achieves the purpose of raising sufficient financing to meet the condition precedent.

The Company has approached certain brokerage firms for the potential appointment as placing agents. Given that completion of the Acquisition is conditional on, among other things, a number of regulatory approvals and Independent Shareholders' approval which neither the Company nor the placing agent(s) has control over, such brokerage firms consider that the Acquisition is in a preliminary stage. Accordingly, the Directors (including independent non-executive Directors) consider that it is not commercially feasible and practical to enter into a definitive placing agreement with the placing agent(s) at this early stage. The Company intends to enter into placing agreement(s) with relevant placing agent(s) and/or placees setting out detailed rights and obligations of parties, and final terms in respect of the Placing when the result of the EGM is known. On this basis, the Company expects that placing agreement(s) will be entered into soon after the EGM. Further announcement(s) will be made in accordance with the GEM Listing Rules when the Company enters into placing agreement(s). The final terms of the Placing will be agreed between the Company and relevant placing agent(s) and/or placees after arm's length negotiations. The Placing will be entered into on normal commercial terms.

LETTER FROM THE BOARD

Accordingly, the Board proposes to seek approval from the Independent Shareholders for the Placing by means of a resolution to be proposed at the EGM. The resolution will authorise the Board to determine and deal with, at its discretion and with full authority, matters relating thereto (including, but not limited to, the specific timing of the issue, final number of new Shares to be issued, offering mechanism, issue price (subject to the minimum set out in the resolution), target placees and the number and proportion of Shares to be issued to each placee). If the approval is granted, it will remain in effect until the earliest of (i) 30 September 2010; and (ii) the date upon which such authority is revoked or varied by an ordinary resolution of the Independent Shareholders in a general meeting of the Company. The proposed terms of the Placing are as follows:

Number of the Placing Shares: Up to 1.2 billion Placing Shares, representing approximately 299.5% of the Company's issued share capital as at the Latest Practicable Date and approximately 21.4% of the Company's issued share capital as enlarged by the allotment and issue of the Consideration Shares, the Placing Shares and the Remuneration Shares but before full conversion of all outstanding convertible bonds, being at least sufficient Shares so that the public float requirement is fulfilled.

The Placing Shares will be allotted and issued under the authority to be granted by the Independent Shareholders at the EGM.

Placing price: An expected minimum placing price of HK\$0.291 per Placing Share which is determined by reference to the issue price for the Consideration Shares), which represents:

- (i) a discount of approximately 55.9% to the closing price of the Shares as quoted on the Stock Exchange of HK\$0.66 per Share on the Latest Practicable Date;
- (ii) a discount of approximately 55.5% to the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.654 per Share for the five consecutive trading days ended on the Latest Practicable Date; and

LETTER FROM THE BOARD

- (iii) a premium of approximately 939.3% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.028 per Share based on the audited consolidated net asset value of the Group attributable to the Shareholders of approximately HK\$10.8 million as at 31 December 2008 and the issued share capital of 384,000,000 Shares as at 31 December 2008. As at 31 December 2009, the audited consolidated net liabilities attributable to the Shareholders was HK\$0.039 per Share based on the audited consolidated net liabilities value of the Group attributable to the Shareholders of approximately HK\$15.7 million as at 31 December 2009 and the issued share capital of 399,562,581 Shares as at 31 December 2009.

Although the expected minimum placing price is set at HK\$0.291, it does not mean that the Company must issue the Placing Shares at that price. The Directors will continue to endeavour to obtain the best possible issue price for the Placing Shares in the interests of the Shareholders. The stock market has been volatile recently. Accordingly, the expected minimum placing price of HK\$0.291 will provide the Company with flexibility to conduct the Placing for the Completion. Coupled with the benefits of the Acquisition, the Directors (including the independent non-executive Directors) consider that the expected minimum placing price is fair and reasonable.

The price shall be determined by agreement between the Company and the relevant placing agent(s) and/or placees after arm's length negotiations at the time of Placing and will be subject to a number of considerations, including prevailing market conditions, the prevailing market price of the Shares and investor demand for the Shares at the relevant time. The Directors (including the independent non-executive Directors) consider that this pricing mechanism is fair and reasonable as it is in line with market practice.

LETTER FROM THE BOARD

Gross proceed:

Based on the expected minimum placing price of HK\$0.291 per Placing Share and the maximum number of Placing Shares of 1.2 billion, the gross proceed is approximately HK\$349.2 million.

It is intended that the gross proceeds from the Placing will be used by the Company for the following purposes:

- (i) up to 32% or approximately HK\$112 million for repayment of outstanding loans with principal amount of approximately US\$14.0 million as at the Latest Practicable Date and accrued interest due to TJCC Holdings Ltd.;
- (ii) up to 15% or approximately HK\$52 million for repayment of bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC with aggregate principal amount of approximately US\$6.4 million as at the Latest Practicable Date and accrued interests;
- (iii) up to 39% or approximately HK\$136 million for capital expenditure of the Target Group;
- (iv) up to 2% or approximately HK\$9 million for payment of professional fees for the Placing and the Acquisition; and
- (v) the remaining balance of approximately 12% or approximately HK\$40.2 million for general working capital of the Group and the Target Group and/or the commission for placing agent(s).

In the event the placing price is determined to be above the minimum price of HK\$0.291 per Share, any amount in excess of the approximately HK\$349.2 million will be used to accelerate the Target Group's capital expenditure plans, which require approximately RMB395.3 million (equivalent to approximately HK\$449.2 million) through 31 December 2012, as described in more detail in the paragraph headed "Expand its production capacity and consolidate its production facilities" in the sub-section headed "Business strategies" of the "Business of the Target Group" section of this circular, and to implement the business objectives of the Target Group" as detailed in the section headed "Statement of Business Objectives" of this circular. Any excess amount will be earmarked for the general working capital needs of the Group and the Target Group.

LETTER FROM THE BOARD

Ranking of Placing Shares: The Placing Shares, when allotted and issued, will rank pari passu in all respects with the existing issued Shares, including the right to receive all dividends and distributions declared or proposed to be declared or paid by the Company as from the date of such allotment and issue of the Placing Shares.

Conditions of the Placing: The Company expects that completion of the Placing will be conditional upon, among other things,

- (i) the Stock Exchange granting the listing of, and permission to deal in, the Placing Shares;
- (ii) the approval of the Placing by Independent Shareholders at the EGM; and
- (iii) completion of the Acquisition.

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

Shareholders and potential investors should note that the Placing is subject to various conditions, which may or may not be fulfilled. Therefore, there is no assurance that the Placing will proceed and, if it proceeds, on the precise terms on which it may proceed. Shareholders and potential investors are reminded to exercise caution when dealing in securities of the Company.

Placees: The Placing Shares are expected to be placed to not less than six independent placees (which may be independent individual, corporate and/or institutional investors), who are third parties independent of the Company, the Vendor, and their respective connected persons.

Each placee together with its associates can only subscribe such number of Placing Shares that each placee and its associates, in aggregate, shall, immediately following such subscription of Placing Shares, hold less than 10% of the issued share capital of the Company as enlarged by the issuance and allotment of the Consideration Shares, the Placing Shares and the Remuneration Shares.

The Placing will constitute a deemed disposal of the Shares by the Vendor and an application will be made to the Executive for consent under paragraph 3(b) of Schedule VI to the Takeovers Code.

LETTER FROM THE BOARD

Although there will be significant dilutive effect on the existing Shareholders upon completion of the Placing, the Directors (including all the independent non-executive Directors) are of the view that the Placing is fair and reasonable and in the interests of the Shareholders and the Company for the following reasons:

- (i) final terms of the Placing will be agreed between the Company and relevant placing agent and/or placees after arm's length negotiations and the Placing will be entered into on normal commercial terms;
- (ii) the Acquisition represents an outstanding investment opportunity for the Company and the Shareholders. The Group has been suffering losses for the last three financial years (2007: loss of approximately HK\$17.4 million, 2008: loss of approximately HK\$27.2 million and 2009: loss of approximately HK\$30.9 million) whereas the Target has recorded profits. Accordingly, the Directors (including all the independent non-executive Directors) are of the view that the Acquisition can strengthen the financial position of the Group and the Acquisition is in the interests of the Company and the Shareholders as a whole;
- (iii) given the large amount of external financing required for fulfillment of the condition precedent, the Placing is necessary to finance the amount needed for Completion of the Acquisition and the development of business of the Target Group after Completion;
- (iv) there is a requirement to maintain a 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares, other financing methods such as bank borrowings, issue of convertible securities and issue of warrants cannot achieve this purpose; and
- (v) other financing methods with less dilutive impacts, such as a rights issue, are not practical in terms of size and procedures. Under a rights issue, shareholders are normally asked to take up less than 100% of their existing shareholding. In the current situation, the Company intends to issue approximately three times the Company's issued Shares as at the Latest Practicable Date. Moreover, as the timetable for a rights issue is prolonged, it is likely to be difficult to obtain commercial underwriters for the required "carry period" on acceptable terms. There is no controlling Shareholder in this case who might be prepared to underwrite on terms or in circumstances where commercial underwriters may be reluctant. Given this uncertainty, the Directors (including all the independent non-executive Directors) are of the view that a right issue is not an appropriate way of raising finance in the current situation.

The Directors' view with respect to working capital sufficiency for the Enlarged Group taking into account matters including the Placing is set out in the sub-section headed "Working Capital" in the section headed "Financial Information of the Target Group" of this circular

LETTER FROM THE BOARD

CHANGE OF SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (a) as at the Latest Practicable Date; (b) upon issue and allotment of the Consideration Shares, maximum number of the Placing Shares and the Remuneration Shares but before full conversion of all outstanding convertible bonds of the Company; and (c) upon full conversion of all outstanding convertible bonds of the Company.

	As at the Latest Practicable Date		Upon issue and allotment of the Consideration Shares, maximum number of the Placing Shares and the Remuneration Shares but before full conversion of all outstanding convertible bonds of the Company		Upon issue and allotment of the Consideration Shares, maximum number of the Placing Shares and the Remuneration Shares and full conversion of all outstanding convertible bonds of the Company	
	<i>(Note 1)</i>		<i>(Note 1)</i>		<i>(Note 1)</i>	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Williams and his associates <i>(Notes 1, 5, 6, 7 & 9)</i>	7,742,284	1.93	7,742,284	0.14	28,242,284	0.50
The Vendor	0	0.00	4,000,000,000	71.38	4,000,000,000	70.61
Vendor and parties acting in concert with it	7,742,284	1.93	4,007,742,284	71.52	4,028,242,284	71.11
Vasky Inc. <i>(Note 2)</i>	71,252,000	17.78	71,252,000	1.27	71,252,000	1.26
Wah Hong Investment Limited <i>(Note 3)</i>	18,000,000	4.49	18,000,000	0.32	18,000,000	0.32
Total non-public Shareholders	96,994,284	24.20	4,096,994,284	73.11	4,117,494,284	72.69
Ancient Castle Group Limited <i>(Notes 1 & 4)</i>	23,619,819	5.89	23,619,819	0.42	51,619,819	0.91
Holders of 1% convertible bonds (excluding convertible bonds issued to Ancient Castle Group Limited and Power Castle Development Ltd.) <i>(Note 1)</i>	0	0.00	0	0.00	12,432,000	0.22
Somerley <i>(Note 8)</i>	838,581	0.21	4,043,652	0.07	4,043,652	0.07
Other public Shareholders	279,253,897	69.70	279,253,897	4.99	279,253,897	4.93
Holders of placing shares	0	0	1,200,000,000	21.41	1,200,000,000	21.18
Total	400,706,581	100.00%	5,603,911,652	100.00%	5,664,843,652	100.00%

Notes:

- In May 2008, the Company issued 3% convertible bonds with principal amount of HK\$400,000 at an initial conversion price of HK\$0.5 per Share. Integrated Financial Holdings Limited and Orient Passage Limited subscribed for these convertible bonds in the principal amount of HK\$220,000 and HK\$180,000 respectively. The maturity date of these convertible bonds is two years after the issue of the convertible bonds, i.e. 30 April 2010. As of the Latest Practicable Date, the Company has not yet redeemed these convertible bonds, and have received written confirmation from the holders of the convertible bonds that they have no present intention to claim against the Company notwithstanding that the Company has not yet repaid the principal or redeemed the convertible bonds. In September 2008, the Company issued 1% convertible bonds with principal amount of HK\$21,726,600 convertible into the Shares at an initial conversion price of HK\$0.35 per Share. Ancient Castle Group Limited subscribed for these convertible bonds in the principal amount of HK\$9,800,000 and the remaining value was subscribed by Power Castle Development Ltd. (as detailed in Note 6) and other subscribers. A total of 1,144,000 Shares were issued to holders(s) of 1% convertible bonds upon partial exercise of conversion right by other subscriber(s) as at the Latest Practicable Date. Zero coupon convertible bonds with principal amount of HK\$2,800,000 at an initial conversion price of HK\$0.2 per Share will be issued by the Company to AIC and GFT upon completion of the acquisition of Key Target as detailed in the Company's announcements dated 21 April and 5 May 2009 and the Company's circular dated 25 May 2009. As at the Latest Practicable Date, such acquisition has yet to be completed and accordingly the convertible bonds have not been issued.

LETTER FROM THE BOARD

Save for mentioned above, none of the conversion rights of the abovementioned convertible bonds have been exercised as at the Latest Practicable Date. As at the Latest Practicable Date, the Company had 38,400,000 outstanding options granted to certain Directors, employees, advisers and consultants of the Company, carrying rights to subscribe for 38,400,000 Shares. Save for these options and convertible bonds, the Company did not have other outstanding warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date.

2. Vasky Inc. is wholly and beneficially owned by Mr. Lee Sung Min, an executive Director.
3. Wah Hong Investment Limited is wholly and beneficially owned by Mr. Lee Jong-Dae, an executive Director.
4. Ancient Castle Group Limited is wholly and beneficially owned by Mr. Lee Seung Hoon, an independent third party.
5. In May 2008, Mr. Williams and Mr. Li Rubo introduced a coal mine investment project in Shanxi Province, the PRC, to the Company. They were involved in the liaison between the Company and the owner of the mine and coordinated meetings between the parties. They also provided certain consulting services to the Company in connection with such proposed investment in the mine, such as provision of technical information. In addition, since June/July 2008, Mr. Williams and one of his extended family member have provided consultancy services to the Company with respect to the Russian Mine Project, including on technical mining aspects, providing general information relating to the mining sector and financial modelling regarding the proposed investment in the Russian Mine Project. The Board was grateful to the introduction and consultancy services provided by them and decided to grant options to them to recognize their contribution and as reward. In July 2008, 3,200,000 options were granted to each of Mr. Williams, one of his extended family member and Mr. Li Rubo as rewards for and in recognition of their contribution to the Group. Such options confer them with rights to subscribe for 9,600,000 Shares in aggregate.
6. In September 2008, the Company issued 1% convertible bonds with principal amount of approximately HK\$21.7 million for general working capital of the Company or development of any suitable projects. Power Castle Development Ltd., a company owned and managed by Mr. Williams on trust for and on behalf of his extended family members, subscribed for and hold these convertible bonds with principal amount of HK\$7,175,000 at an initial conversion price of HK\$0.35 per Share that can be converted into 20,500,000 Shares.

Mr. Williams holds approximately 21.7%, 54.4%, 21.7% and 2.2% of the entire interests in Power Castle Development Ltd. on trust for and on behalf of his extended family members, namely, Janet Harrison (sister of Mr. Williams), Carol Schroeder (sister of Mr. Williams), Griffin Schroeder (nephew of Mr. Williams) and Emory Williams Senior (father of Mr. Williams), respectively.
7. Madam Liu Jie, the spouse of Mr. Williams, beneficially owns 7,742,284 Shares (representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date) which were issued in February 2009 by the Company pursuant to a share subscription agreement. Other than being the spouse of Mr. Williams and a Shareholder, Madam Liu Jie has no relationship with the Company.
8. The exact number of the last two batches of Remuneration Shares to be issued to Somerley could not be determined with accuracy as at the Latest Practicable Date. Accordingly, the number of Shares interested by Somerley in the enlarged issued share capital of the Company are for illustration purpose only. Details relating to the Remuneration Shares are set out in sub-section headed "Issue of Remuneration Shares" below.

LETTER FROM THE BOARD

9. Mr. Williams and his associates were public Shareholders as at the Latest Practicable Date and will become non-public Shareholders upon completion of the Acquisition.

During the Track Record Period and as at the Latest Practicable Date, Madam Liu Jie, a PRC citizen, held 7,742,284 Shares in the Company (representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date) and no registration of her overseas direct investment in the Company has been made in accordance with the requirements of the SAFE. As advised by the PRC lawyers to the Company, pursuant to relevant PRC regulations, PRC individuals shall undertake registration in light of relevant provisions of SAFE when conducting overseas direct investment. However, as informed by the PRC lawyers to the Company, such provisions have not yet been promulgated by SAFE. As a result, such registration is not practical by now. Madam Liu Jie may be fined for an amount of less than RMB50,000 for not having made such registration. As confirmed by the PRC legal advisers to the Company, as Madam Liu Jie will effectively indirectly hold the interest in Zhengzhou Siwei via the Company and the Target upon Completion, it cannot rule out the possibility that after Completion, the competent authority may forbid Zhengzhou Siwei to make the payments of (a) dividends, (b) proceeds arising from the equity transfer, the capital reduction, the advanced recovery of investment and liquidation, and (c) the principal and interest of shareholders' loans to the Target in accordance with the relevant PRC laws and regulations. The relevant laws and regulations have not provided any specific length for such restriction. As long as the illegal status continues, the possibility of Zhengzhou Siwei to be punished by competent authority exists. According to the PRC legal advisers to the Company, given the size of Madam Liu Jie's shareholding, the possibility to impose penalties on Zhengzhou Siwei by the competent authority is minimal. In this connection, Madam Liu Jie (who will be a connected person of the Company upon Completion by reason of Mr. Williams, her spouse, being expected to be appointed an executive Director upon Completion) has given the Company an irrevocable undertaking to transfer her interest in the Company to Mr. Williams, a non-PRC resident, as soon as practicable as permitted under the Takeovers Code and/or the GEM Listing Rules. Under the Takeovers Code, the Whitewash Waiver will not be granted or if granted will be invalidated if, without the prior consent of the Executive, acquisition or disposals of voting rights of the Company are made by MML or any person acting in concert with it, including Madam Liu Jie, being the spouse of Mr. Williams who is the director of the Vendor, in the period between the date of the Announcement and the Completion. In order not to breach the above requirement of the Takeovers Code thus adversely affect the application of the Whitewash Waiver, it is proposed that the transfer of Shares in the Company from Madam Liu Jie to Mr. Williams will take place after the Completion when such transfer will no longer affect the validity of the Whitewash Waiver. Moreover, Mr. Williams, who will be appointed as an executive Director after Completion, and his spouse Madam Liu Jie shall comply with the GEM Listing Rules requirement regarding securities transactions by directors in respect of the transfer of Madam Liu Jie's equity interest in the Company to him. The PRC legal advisers to the Company confirmed that the aim of the proposed transfer of equity interests in the Company from Madam Liu Jie to Mr. Williams is to comply with the relevant PRC laws and regulations and the possibility to impose penalties on Madam Liu Jie by competent authorities is minimal after such proposed transfer is completed. Given (1) the advice of the Company's PRC legal advisers that the possibility to impose penalties on Zhengzhou Siwei by competent authorities is minimal; and (2) Madam Liu Jie's irrevocable undertaking to transfer her interest in the Company to Mr. Williams, the Board considers that the risk involved is remote.

LETTER FROM THE BOARD

RISK FACTORS

The Company may face certain risk factors in respect of the Acquisition, details of which are set out in the “Risk Factors” section of this circular.

MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

Immediately upon the issue of the Consideration Shares and the issue of maximum number of the Placing Shares but before full conversion of all outstanding convertible bonds of the Company, and assuming that there have been no other changes in the issued share capital of the Company since the Latest Practicable Date, the Vendor and its Concert Parties will be interested in 4,007,742,284 Shares, representing approximately 71.52% of the enlarged issued share capital of the Company. It is disclosed on the shareholding structure table set out in the section headed “Change of shareholding structure of the Company” above, not less than 25% of the enlarged issued share capital of the Company is expected to be in the hands of the public immediately upon Completion of the Acquisition and the Placing.

It is the intention of the Vendor to maintain the listing status of the Company on GEM upon Completion and to ensure that at least 25% or above of the issued Shares is in public hands. In addition to compliance with Rule 11.23(7) of the GEM Listing Rules, the Vendor will ensure the compliance with Rules 11.23(2)(b) and 11.23(8) of the GEM Listing Rules upon Completion.

For compliance with Rules 11.23(2)(b) and 11.23(8) of the GEM Listing Rules immediately upon Completion, when allocating shares under the Placing, the Company and the Sponsor will take steps to ensure that the Company will (1) have a minimum of 100 public Shareholders immediately upon Completion; and (2) no placees, together with associates will be allocated with a significant number of shares such that more than 50% of the Shares in public hands at the time of listing will be beneficially owned by the three largest public shareholders.

LETTER FROM THE BOARD

GEM LISTING RULES IMPLICATIONS

(a) Very substantial acquisition and connected transaction

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules, on the basis that the calculations of the assets, profits, revenue, consideration and equity capital ratios are all over 100%.

As set out in the shareholding table under the section headed “Change of shareholding structure of the Company” above, immediately upon completion of the Acquisition and the Placing, and assuming that there have been no other changes in the issued share capital of the Company since the Latest Practicable Date, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company and become a controller of the Company. Accordingly, pursuant to Rule 20.13(1)(b)(i) of the GEM Listing Rules, the Acquisition also constitutes a connected transaction for the Company. The Agreement and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders under the GEM Listing Rules.

(b) Reverse takeover and new listing application

In addition, the Acquisition and the transactions contemplated under the Agreement constitute a reverse takeover for the Company under Rule 19.06(6)(a) of the GEM Listing Rules, on the basis that the Acquisition constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and the Acquisition involves a change in control (as defined under the Takeovers Code) of the Company. Accordingly, under Rule 19.54 of the GEM Listing Rules, the Company will be treated as if it were a new listing applicant. The Acquisition and transactions contemplated under the Agreement are therefore also subject to the approval by the Listing Division of the Stock Exchange of a new listing application to be made by the Company. Such new listing application is required to comply with all the requirements under the GEM Listing Rules, in particular the requirements under Chapters 11 and 12 of the GEM Listing Rules.

Somerley has been appointed as sponsor in respect of the new listing application of the Company.

As previously announced, the new listing applications was submitted to the Stock Exchange on 22 January 2010. The Listing Division of the Stock Exchange has given its approval in principle of the new listing application of the Company.

LETTER FROM THE BOARD

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As set out in the shareholding table under the section headed “Change of shareholding structure of the Company” above, immediately upon completion of the Acquisition and the Placing, and assuming that there have been no other changes in the issued share capital of the Company since the Latest Practicable Date, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company. Accordingly, the Vendor and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of the Company (other than those already owned or agreed to be acquired by the Vendor and its Concert Parties).

The Vendor will apply to the Executive for the Whitewash Waiver, and the Executive has indicated that, subject to application to be made by the Vendor, it will grant the Whitewash Waiver, the granting of which will be subject to, among other things, (1) approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM where voting on the relevant resolution(s) shall be taken by poll; (2) the Vendor and its Concert Parties not having acquired any voting rights of the Company in the six months prior to the date of the Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Acquisition under the Agreement; and (3) the Vendor and its Concert Parties not having any acquisitions or disposals of voting rights of the Company between the date of the Announcement and completion of the Acquisition unless with prior consent of the Executive.

Should the Vendor and its Concert Parties hold more than 50% of the enlarged issued share capital of the Company upon completion of the Acquisition and the Placing, they may increase their shareholding in the Company further without triggering any further general offer obligation under Rule 26 of the Takeovers Code. Should individual members of the Vendor and its Concert Parties increase their holdings to 30% or above or if they already hold between 30% to 50% of the enlarged issued share capital of the Company immediately after completion of the Acquisition and the Placing and they acquire additional voting rights and such acquisition has the effect of increasing their holdings of voting rights of the Company by more than 2% from the lowest percentage holding of such persons in the 12 month period ending on and inclusive of the date of the relevant acquisition, then they will still trigger a general offer obligation under Rule 26.1 of the Takeovers Code.

LETTER FROM THE BOARD

The Agreement and the transactions contemplated thereunder and the Whitewash Waiver are subject to approval by the Independent Shareholders (who are permitted to vote under the GEM Listing Rules and the Takeovers Code) at the EGM. The Vendor, its Concert Parties and their respective associates (interested in 7,742,284 Shares, representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date) together with those who are interested in, or involved in, the Agreement and the Whitewash Waiver are required to abstain from voting on the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares) and the Whitewash Waiver at the EGM. Moreover, all Directors involving in negotiations of the Agreement and Somerley are required to abstain from voting on the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares) and the Whitewash Waiver at the EGM. Mr. Lee Jong-Dae, an executive Director, is the only Director involved in negotiations of the Agreement. Mr. Lee Jong-Dae holds 18,000,000 Shares (representing approximately 4.49% of the issued share capital of the Company) through a wholly-owned company, Wah Hong Investment Limited, as at the Latest Practicable Date. Therefore, Mr. Lee Jong-Dae and his associates (including Wah Hong Investment Limited) and Somerley (interested in 838,581 Shares, representing approximately 0.21% of the issued share capital of the Company as at the Latest Practicable Date) are required to abstain from voting on the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares) and the Whitewash Waiver at the EGM.

THE VENDOR'S DEALING AND INTERESTS IN SECURITIES OF THE COMPANY

As at the Latest Practicable Date,

- (a) each of (i) Mr. Williams, (ii) Griffin Schroeder, a nephew of Mr. Williams, and (iii) Mr. Li Rubo held 3,200,000, 3,200,000 and 3,200,000 options, respectively, which confer them with rights to subscribe for 9,600,000 Shares in aggregate;

- (b) Power Castle Development Ltd., a company owned and managed by Mr. Williams on trust for and on behalf of his extended family members, held convertible bonds of the Company in the principal amount of HK\$7,175,000 with 1% coupon rate maturing on 29 September 2013 which can be converted into 20,500,000 Shares at an initial conversion price of HK\$0.35 per Share. Mr. Williams holds approximately 21.7%, 54.4%, 21.7% and 2.2% of the entire interests in Power Castle Development Ltd. on trust for and on behalf of his extended family members, namely, Janet Harrison (sister of Mr. Williams), Carol Schroeder (sister of Mr. Williams), Griffin Schroeder (nephew of Mr. Williams) and Emory Williams Senior (father of Mr. Williams), respectively; and

LETTER FROM THE BOARD

- (c) Madam Liu Jie, the spouse of Mr. Williams, beneficially owned 7,742,284 Shares which were issued in February 2009 by the Company pursuant to a share subscription agreement.

None of the conversion rights of the aforesaid convertible bonds and options have been exercised as at the Latest Practicable Date.

As disclosed in section headed “The Agreement” above, the convertible bonds in an aggregate principal amount of HK\$2.8 million have not been issued to AIC and GFT as at the Latest Practicable Date.

Save for the above, neither the Vendor nor any of its Concert Parties was interested in any Shares, warrants, options, derivatives or securities convertible into the Shares as at the Latest Practicable Date nor had they dealt in any Shares, warrants, options, derivatives or securities convertible into the Shares during the period commencing on the date falling six months prior to and up to the date of the Announcement. The Vendor and its Concert Parties have undertaken that they will not deal in the Shares, warrants, options, derivatives or securities convertible into the Shares during the period from 21 September 2009 up to and including the date of completion of the Agreement.

ISSUE OF REMUNERATION SHARES

Somerley is a financial adviser to the Company regarding the Acquisition and the Whitewash Waiver and the sponsor to the new listing application of the Company. Pursuant to an engagement letter dated 25 May 2009 entered into between the Company and Somerley (the “Engagement Letter”), and having considered the financial position of the Company and to minimize further cash outlays, it was agreed between the Company and Somerley that part of professional fees in an amount of US\$175,000 charged by Somerley on project basis in respect of the provision of financial advisory services to the Company would be settled by the issue of Remuneration Shares to it. The professional fees were agreed after arm’s length negotiations and by reference to market rate for similar types of advisory services. A total of 838,581 Remuneration Shares were issued to Somerley as at the Latest Practicable Date. Out of the 838,581 Remuneration Shares issued, 388,000 Remuneration Shares were issued at an issue price of HK\$0.2 each (a rounded-up price by reference to the 30-day VWAP prior to the date of the engagement) to settle an amount of US\$10,000 due to Somerley (details of which were set out in the Company’s announcement dated 3 June 2009). A further 450,581 Remuneration Shares were issued at an issue price of HK\$0.258 each (equivalent to the 30-day VWAP prior to the release of the Company’s announcement dated 20 November 2009) to settle an amount of US\$15,000 due to Somerley (details of which are set out in the Company’s announcement dated 20 November 2009). An additional amount of US\$50,000 will be settled by the issue of the Remuneration Shares following the release of this circular approving, among other things, the Agreement and the Whitewash Waiver at an issue price equivalent to the 30-day VWAP prior to the release of this circular. This represents the same underlying basis used

LETTER FROM THE BOARD

for determining the issue price for the first and second batches of Remuneration Shares as set out above. For illustration purpose only, based on an issue price of HK\$0.717 each and exchange rate of US\$1 to HK\$7.77, it is estimated that 541,841 Remuneration Shares will be issued in this regard. Further Remuneration Shares will be issued at HK\$0.291 each (which is equal to the issue price for the Consideration Shares) to Somerley to settle the success fee (payable on the commencement of trading of the Consideration Shares) of US\$100,000. It is estimated that 2,663,230 Remuneration Shares will be issued (subject to change in exchange rate) in this regard. Such final batch of Remuneration Shares will be allotted and issued under a specific mandate to be sought by the Company at the EGM. Application will be/has been (as the case may be) made to the Listing Division of the Stock Exchange in respect of such listing of, and permission to deal in, the Remuneration Shares. The issue of Remuneration Shares will constitute a deemed disposal of the Shares by the Vendor and an application will be made to the Executive for consent under paragraph 3(b) of Schedule VI to the Takeovers Code.

As at the Latest Practicable Date, Somerley and its associates were interested in 838,581 Shares (representing approximately 0.21% of the issued share capital of the Company as at the Latest Practicable Date). The Company will seek the grant of a specific mandate to allot and issue the final batch of Remuneration Shares in an amount of US\$100,000 at the EGM. Somerley is required to abstain from voting at the EGM in this regard.

PROPOSED CHANGE TO THE COMPOSITION OF THE BOARD

Upon Completion, the Company will cause such changes to its Board and members of senior management as may be necessary as are disclosed in this circular at the earliest time permitted under Rule 7 and Rule 26.4 of the Takeovers Code.

At present Mr. Lee Jong-Dae, Mr. Lee Sung Min and Mr. Kim Beom Soo are executive Directors on the Board. The Board proposes to nominate Mr. Williams and Mr. Li Rubo as new executive Directors replacing Mr. Lee Sung Min and Mr. Kim Beom Soo. Furthermore, the senior management of the Target Group will join the Group following Completion. It is the intention of the Board not to make any material changes to the management of companies comprising the Target Group save for appointment of representatives from the Company on the boards of members of the Target Group after Completion. Accordingly, the persons currently managing the Target Group will continue with their existing functions in relation to the business of the Target Group following Completion. On this basis, the Board considers that the Company will have expertise to manage the Target Group and to conduct the business of the Target Group following Completion. Moreover, the Company intends to appoint additional independent non-executive Director(s) who has/have relevant experience in the PRC coal mining industry.

Mr. Lee Sung Min is currently the compliance officer of the Company. Following his resignation as a director of the Company upon Completion, Mr. Lee Sung Min will cease to be the compliance officer of the Company. It is expected that Mr. Lee Jong-Dae will be appointed for such replacement.

LETTER FROM THE BOARD

Further details of proposed changes to the Board and senior management and biographical and other information relating to proposed new Directors and senior management are set out in the section headed “Directors and senior management” in this circular.

ADOPTION OF NEW ARTICLES

In order to give more flexibility to the Directors and the Company and in view of amendments made to the GEM Listing Rules on various dates, as well as to modernise and update the Articles, the Company proposes to adopt a new set of Articles instead of making piecemeal amendments. Summary of the material changes brought about by the adoption of the new Articles and the full terms of the amendments to the Articles are set out in appendices VIII and IX to this circular respectively.

In accordance with article 166 of the existing Articles, the adoption of the new Articles will be subject to the approval of the Shareholders by way of special resolution at the EGM. No Shareholder is required to abstain from voting at the EGM in respect of the special resolution for the adoption of new Articles.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve month period immediately before the Latest Practicable Date.

EGM

A notice of the EGM to be held at Unit 9B, 9th Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong on Friday, 23 July 2010 at 11:00 a.m. is set out on pages EGM – 1 to EGM – 7 of this circular for the purpose of considering and, if thought fit, approving the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing, the issue of final batch of Remuneration Shares and the adoption of new Articles.

There is a form of proxy for use at the EGM accompanying this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars of ERA Holdings Global Limited in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than forty-eight (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.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee of the Company (comprising all independent non-executive Directors (namely Mr. David Marc Boulanger, Mr. Christopher John Parker and Mr. Chan Sze Hon)) has been constituted to consider the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares, and to make a recommendation to the Independent Shareholders. Access Capital has been appointed as independent financial adviser to the Independent Board Committee and the Independent Shareholders in this regard.

The Independent Board Committee, after taking into account the advice from Access Capital, the independent financial adviser, consider that the terms of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Placing and the issue of final batch of Remuneration Shares are fair and reasonable, and both the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares.

The executive Directors consider that the terms of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Placing and the issue of final batch of Remuneration Shares are fair and reasonable, and both the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares.

The Board considers that the adoption of new Articles is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the special resolution to be proposed at the EGM to approve the adoption of new Articles.

LETTER FROM THE BOARD

The text of the letter from the Independent Board Committee is set out on pages 69 to 70 of this circular. The text of the letter from Access Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons which it has taken into account in arriving at its advice is set out on pages 71 to 108 of this circular.

FURTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information on the Target Group and other information required to be disclosed under the Takeovers Code and the GEM Listing Rules.

Yours faithfully,
For and on behalf of the Board of
ERA Holdings Global Limited
Lee Jong-Dae
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee to the Independent Shareholders in connection with the Agreement, the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares for inclusion in this circular:



ERA Holdings Global Limited

年代國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8043)

30 June 2010

To the Independent Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION
(2) CONNECTED TRANSACTION
(3) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(4) APPLICATION FOR WHITEWASH WAIVER
(5) PLACING
AND
(6) ISSUE OF REMUNERATION SHARES**

We refer to the circular issued by the Company to Shareholders dated 30 June 2010 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

The Independent Board Committee has been constituted to, among other things, give a recommendation to the Independent Shareholders in respect of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares. Access Capital has been appointed as the independent financial adviser to advise us in connection with the terms of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out in its letter on pages 71 to 108 of the Circular, and the additional information set out in other sections of and appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares as well as the advice and recommendations of Access Capital as set out in its letter of advice, we consider that the terms of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Placing and the issue of final batch of Remuneration Shares are fair and reasonable as far as the Independent Shareholders are concerned. We also consider that both the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve, among other things, the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares.

Yours faithfully,
Independent Board Committee
ERA Holdings Global Limited
Chan Sze Hon
Christopher John Parker
David Marc Boulanger
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital Limited prepared for incorporation into this circular.



Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

30 June 2010

*To: The Independent Board Committee and the Independent Shareholders of
ERA Holdings Global Limited*

Dear Sirs,

- (1) VERY SUBSTANTIAL ACQUISITION**
(2) CONNECTED TRANSACTION
(3) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(4) APPLICATION FOR WHITEWASH WAIVER
(5) ISSUE OF REMUNERATION SHARES
AND
(6) PLACING

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Acquisition, the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular of ERA Holdings Global Limited to the Shareholders dated 30 June 2010 (the “Circular”), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 20 November 2009, the Company announced that the Purchaser, a wholly-owned subsidiary of the Company, had entered into the Agreement with the Vendor to acquire from the Vendor the Sale Share, which represents the entire issued share capital of the Target. It was further announced that the Purchaser and the Vendor had, on 31 March 2010, entered into a supplemental deed to amend certain terms of the Agreement. The aggregate consideration for the Acquisition payable by the Purchaser shall be HK\$1,164,000,000, which shall be satisfied by procuring the Company to issue 4,000,000,000 Consideration Shares at an issue price of HK\$0.291 per Consideration Share to the Vendor at Completion.

The Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules. Immediately upon completion of the Acquisition, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company and become a controlling Shareholder of the Company. Accordingly, pursuant to Rule 20.13(1)(b)(i) of the GEM Listing Rules, the Acquisition also constitutes a connected transaction for the Company. The Agreement and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders under the GEM Listing Rules.

In addition, the Acquisition and the transactions contemplated under the Agreement constitute a reverse takeover for the Company under Rule 19.06(6)(a) of the GEM Listing Rules. Accordingly, the Company will be treated as if it were a new listing applicant. The Acquisition and transactions contemplated under the Agreement are therefore also subject to the approval by the Listing Division of the Stock Exchange of a new listing application to be made by the Company. Somerley has been appointed as the sponsor in respect of the new listing application of the Company. As previously announced, the new listing application was submitted to the Stock Exchange on 22 January 2010. The Listing Division of the Stock Exchange has given its approval in principle of the new listing application of the Company.

Immediately upon completion of the Acquisition, and assuming that there have been no other changes in the issued share capital of the Company since the Latest Practicable Date, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company. Accordingly, the Vendor and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of the Company (other than those already owned or agreed to be acquired by the Vendor and its Concert Parties). The Vendor has applied to the Executive for the Whitewash Waiver.

The external financing by the Purchaser and/or the Vendor in an amount of not less than HK\$200 million, and the maintaining of 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares, are two of conditions precedent for Completion. Accordingly, the Board proposes to seek approval from the Independent Shareholders for the Placing to fulfil such conditions. In addition to compliance with Rule 11.23(7) of the GEM Listing Rules, the Company will ensure the compliance with Rules 11.23(2)(b) and 11.23(8) of the GEM Listing Rules upon Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Somerley is the financial adviser to the Company regarding the Acquisition and the Whitewash Waiver and the sponsor to the new listing application of the Company. Pursuant to an engagement letter dated 25 May 2009 entered into between the Company and Somerley (the “Engagement Letter”), and having considered the financial position of the Company and to minimize further cash outlays, it was agreed between the Company and Somerley that part of professional fees amounting to a total of US\$175,000 charged by Somerley on project basis in respect of the provision of financial advisory services to the Company would be settled by the issue of Remuneration Shares to it.

As at the Latest Practicable Date, an aggregate of 838,581 Remuneration Shares have been issued and allotted to Somerley as part consideration for the provision of advisory services. The final batch of Remuneration Shares will be issued at HK\$0.291 each (which is equal to the issue price for the Consideration Shares) to Somerley to settle the success fee (payable on the commencement of trading of the Consideration Shares) of US\$100,000. It is estimated that 2,663,230 Remuneration Shares will be issued (subject to any changes in the relevant exchange rate) in this regard. Such final batch of Remuneration Shares will be allotted and issued under a specific mandate to be sought by the Company at the EGM. Application will be/has been (as the case may be) be made to the Listing Division of the Stock Exchange in respect of such listing of, and permission to deal in, the Remuneration Shares.

Parties including (a) the Vendor, its Concert Parties and their respective associates (who are interested in 7,742,284 Shares, representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date) together with those who are interested in, or involved in, the Agreement and the Whitewash Waiver; (b) Mr. Lee Jong-Dae and his associates (including Wah Hong Investment Limited (who are interested in 18,000,000 Shares, representing approximately 4.49% of the issued share capital of the Company as at the Latest Practicable Date)); (c) Somerley (which is interested in 838,581 Shares, representing approximately 0.21% of the issued share capital of the Company as at the Latest Practicable Date); and (d) those parties who were involved in or interested in the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver and the Placing are required to abstain from voting on the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver and the Placing at the EGM. Somerley is also required to abstain from voting on the issue of final batch of Remuneration Shares in an amount of US\$100,000 at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of three executive Directors, namely, Mr. Lee Jong-Dae, Mr. Lee Sung Min and Mr. Kim Beom Soo and three independent non-executive Directors, Mr. Chan Sze Hon, Mr. Christopher John Parker and Mr. David Marc Boulanger.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares, and the respective transactions contemplated thereunder. Our appointment as the independent financial adviser has been approved by the Independent Board Committee. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Acquisition, the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares are in the interests of the Company and the Shareholders as a whole; (ii) whether or not the respective terms of the Acquisition, the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares, and the respective transactions contemplated thereunder are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the resolutions relating to the Acquisition, the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares at the EGM.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of the Listing Rules and the Takeovers Code.

BASES AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company, the Target or any of their respective subsidiaries.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

I. The Agreement

1. Information on the Group

The Company is an investment holding company and the Group is principally engaged in home video distribution, theatrical release arrangements, film rights sub-licensing and game distribution. The five-year summary of financial results of the Group as extracted from the Company's annual report for the year ended 31 December 2009 (the "2009 Annual Report") are summarised as below.

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2,599	15,955	50,710	71,129	79,445
Operating loss	(29,570)	(26,366)	(17,094)	(11,759)	(6,141)
Finance costs	<u>(1,349)</u>	<u>(831)</u>	<u>(1)</u>	<u>(17)</u>	<u>(45)</u>
Loss before tax	(30,919)	(27,197)	(17,095)	(11,776)	(6,186)
Income tax expense	<u>(3)</u>	<u>–</u>	<u>(327)</u>	<u>(300)</u>	<u>(688)</u>
Loss for the year attributable to owners of the Company	<u><u>(30,922)</u></u>	<u><u>(27,197)</u></u>	<u><u>(17,422)</u></u>	<u><u>(12,076)</u></u>	<u><u>(6,874)</u></u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	At 31 December				
	2009	2008	2007	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	31,155	43,033	57,842	44,862	60,901
Total liabilities	<u>(46,851)</u>	<u>(32,212)</u>	<u>(21,737)</u>	<u>(17,051)</u>	<u>(21,003)</u>
Net (Liabilities)/					
Assets	<u>(15,696)</u>	<u>10,821</u>	<u>36,105</u>	<u>27,811</u>	<u>39,898</u>

As shown in the table above, the Group has recorded losses for five consecutive years since 2005. The revenue of the Group dropped from approximately HK\$79.4 million for the year ended 31 December 2005 to approximately HK\$2.6 million for the year ended 31 December 2009 with the loss attributable to owners of the Company increasing from approximately HK\$6.9 million to HK\$30.9 million during the same period. As at 31 December 2009, the Group had net liabilities of approximately HK\$15.7 million.

For the year ended 31 December 2009, the Group recorded a consolidated turnover of approximately HK\$2.6 million, representing a decrease of approximately 83.8% from the revenue of approximately HK\$16.0 million for the year ended 31 December 2008. Consolidated loss for the year amounted to approximately HK\$30.9 million, an increase of approximately 13.6% over the loss of approximately HK\$27.2 million recorded for the year ended 31 December 2008. As stated in the 2009 Annual Report, the decrease in consolidated turnover is mainly due to the significant drop in revenue generated from home video products distribution as compared to the same period in the prior year. The increase in the consolidated loss for the year ended 31 December 2009 was mainly due to a loss incurred in the change of fair value on the derivative components of convertible bonds amounting to approximately HK\$13.5 million and increases in professional fees of approximately HK\$6.8 million incurred in relation to potential acquisitions. The increase in the consolidated loss for the year was partially set off by the reversal of allowances for doubtful debts on prepayments and deposits of approximately HK\$10.2 million and also the lesser amount of allowance for doubtful debts were required in 2009.

As mentioned in the 2009 Annual Report, given the highly competitive home video products market and the challenges from illegal internet download and piracy, the Group has continued to actively consider diversification of its business into new areas with high-growth potential.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Independent Auditor's Report in the 2009 Annual Report, RSM Nelson Wheeler, auditor to the Company, drew Shareholders' attention to certain conditions that indicated the existence of a material uncertainty which in turn may cast significant doubt on the Group's ability to continue as a going concern. Such conditions included (i) the loss attributable to owners of the Company of approximately HK\$30,922,000 for the year ended 31 December 2009; and (ii) net liabilities of approximately HK\$15,696,000 as at 31 December 2009. As such, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on the basis that the Company can continue as a going concern, the validity of which depends upon the success of the Company to obtain funding to finance the working capital requirement of the Group. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to (i) adjust the value of the Group's assets to their recoverable amounts; (ii) provide for any further liabilities which might arise; and (iii) to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

From the Company's quarterly report for the three months ended 31 March 2010, the Group recorded an unaudited turnover of approximately HK\$285,000, an increase of approximately HK\$23,000 over the corresponding period in 2009. The loss for the three months ended 31 March 2010 attributable to equity holders of the Company was approximately HK\$12.8 million, compared to a profit of approximately HK\$2.4 million generated for the three months ended 31 March 2009. The loss was mainly due to the HK\$8.2 million loss on derivative component of convertible bonds.

For further information on the Group, please refer to the annual reports and quarterly report of the Company.

2. Information on the Target Group

The Target is an investment holding company. Its sole investment is the investment in Zhengzhou Siwei which was financed by loans from the Vendor and an independent third party creditor. The Target carries out business through Zhengzhou Siwei and has no other operations. As stated in the section headed "Business of the Target Group" in the Circular, the Target Group is one of leading manufacturers of hydraulic roof supports in the PRC. According to the China National Coal Machinery Industry Association, in 2008, Zhengzhou Siwei was one of the top ten coal machinery enterprises by sales volume. It was also ranked as one of the top five hydraulic roof supports manufacturers by units sold in 2008 with a market share of approximately 9.0%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Target Group's principal production facilities are located in Zhengzhou, Henan Province, the PRC. It manufactures four major types of roof supports (two-leg support, four-leg chock support, sub-level caving powered shield and face-end hydraulic roof supports) that have working resistance ranging from 1,800 KN to 25,600 KN and clearances ranging from 1.4 meters to 6.0 meters. The Target Group sold all its products to domestic customers, including domestic mining companies during the Track Record Period.

As at 31 December 2009, the Target Group had an estimated annual production capacity of around 6,486 units.

An interest free loan owing from the Target to the Vendor in the amount of approximately US\$2,950,000 (equivalent to approximately HK\$23.0 million) was outstanding as at 31 May 2009. Pursuant to the Agreement, such loan will either be capitalised as equity of the Target or waived by the Vendor upon Completion.

The Target was also indebted to an independent third party creditor in the principal amount of US\$17,393,000 (equivalent to approximately HK\$135.7 million) bearing interest at 8% per annum and compound annually together with interest accrued in the amount of approximately US\$2,564,000 (equivalent to approximately HK\$20.0 million) as at 31 December 2009. Interest in the amount of approximately US\$711,000 (equivalent to approximately HK\$5.5 million) was further accrued since 1 January 2010 up to the Latest Practicable Date. The Target borrowed US\$10,193,000 and US\$7,200,000 from such independent third party creditor in December 2007 and June 2008 respectively. Such loans were provided for the acquisition of Zhengzhou Siwei in 2007 and working capital purposes. The Vendor has pledged its interest in the Sale Share to TJCC Holdings Ltd. as security for repayment of the said debt. It is one of the conditions precedent to Completion that external financing will be obtained by the Purchaser and/or the Vendor to repay such loan.

In April 2010, the loan and accrued interest due to TJCC Holdings Ltd. were partially repaid by bridge loans from Mr. Williams, Williams Realty Co, LLC, and Mr. Li Rubo of approximately US\$3,437,000 (equivalent to approximately HK\$26.8 million) and US\$3,011,000 (equivalent to approximately HK\$23.5 million) respectively. As at the Latest Practicable Date, the total outstanding principal of the loan and interest accrued due from the Target due to TJCC Holdings Ltd. were approximately US\$14.0 million (equivalent to approximately HK\$109.2 million) and US\$180,000 (equivalent to approximately HK\$1.4 million) respectively. As at the Latest Practicable Date, the principal amount of the bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC was approximately US\$6.4 million (equivalent to approximately HK\$49.9 million) bearing interest at 8% per annum and compound annually. The outstanding accrued interests of the bridge loans was approximately US\$83,000 (equivalent to approximately HK\$647,000) as at the Latest Practicable Date. The Company intends to conduct fund raising exercises to raise the amount necessary to repay the bridge loans from Mr. Williams and one of his companies, Mr. Li Rubo and the outstanding amount due to TJCC Holdings Ltd.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the results of Zhengzhou Siwei for the three years ended 31 December 2009. Details of the audited consolidated financial statements are set out in Appendix I to the Circular.

	For the year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)
Turnover	563,531	1,008,540	1,236,197
Cost of goods sold	<u>(459,997)</u>	<u>(873,576)</u>	<u>(1,032,098)</u>
Gross profit	103,534	134,964	204,099
Other income	6,744	22,158	47,324
Selling expenses	(39,221)	(43,647)	(59,606)
Administrative expenses	(16,097)	(28,390)	(33,136)
Other operating expenses	<u>(1,191)</u>	<u>(1,619)</u>	<u>(2,584)</u>
Profit from operations	<u>53,769</u>	<u>83,466</u>	<u>156,097</u>
Profit before tax	<u>20,972</u>	<u>80,171</u>	<u>147,990</u>
Profit for the year attributable to the equity holders of Zhengzhou Siwei	<u><u>18,629</u></u>	<u><u>65,517</u></u>	<u><u>124,910</u></u>

Comparison of year ended 31 December 2009 and 2008

The revenue of Zhengzhou Siwei for the year ended 31 December 2009 was approximately RMB1,236,197,000, representing an increase of approximately 22.6% over the previous year. Such increase was mainly due to an approximately 36% increase in units of machinery sold and an approximately 12% decrease in average selling price of Zhengzhou Siwei's products. Cost of sales increased by approximately 18.1% from approximately RMB873,576,000 in 2008 to approximately RMB1,032,098,000 in 2009. Though raw materials prices decreased, cost of sales increased due to a bigger increase in sales volume of Zhengzhou Siwei's products. The profit for the year of Zhengzhou Siwei increased by approximately 90.7% from approximately RMB65,517,000 for the year ended 31 December 2008 to approximately RMB124,910,000 for the year ended 31 December 2009. The increase was mainly due to an increase in gross profit and other factors including increase in other income. Zhengzhou Siwei's net profit margin increased from 6.5% in 2008 to 10.1% in 2009.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison of year ended 31 December 2008 and 2007

Zhengzhou Siwei's revenue increased by approximately 79.0% from RMB563,531,000 in 2007 to RMB1,008,540,000 in 2008. The increase in revenue was mainly due to increased market demand for hydraulic roof supports products used in the coal mining industry and the selling price of Zhengzhou Siwei's products. Cost of sales increased by approximately 89.9% from RMB459,997,000 in 2007 to RMB873,576,000 in 2008, primarily as a result of increased sales volume. Zhengzhou Siwei's profit for the year increased significantly by approximately 251.7% from RMB18,629,000 in 2007 to RMB65,517,000 in 2008. This increase was primarily due to an increase in its sales revenue. Zhengzhou Siwei's net profit margin increased from 3.3% in 2007 to 6.5% in 2008.

Zhengzhou Siwei had bank and cash balances of approximately RMB15,475,000, RMB3,439,000 and RMB27,180,000 as at 31 December 2007, 2008 and 2009 respectively. As at 31 December 2007, 2008 and 2009, Zhengzhou Siwei's net current assets were approximately RMB19,007,000, RMB30,732,000 and RMB163,340,000, respectively.

For more details of the Target Group, please refer to the "History and background of the Target Group", "Business of the Target Group" and "Financial information of the Target Group" sections of the Circular.

3. *The outlook of the coal mining industry and coal mining machinery industry in the PRC*

Coal industry in the PRC

As mentioned in the section headed "Industry Overview" of the Circular, China's coal reserves are abundant but unevenly distributed. According to the BP Statistical Review 2009, China has the world's third largest proven coal reserves with 114.5 billion tonnes or 13.9% of world's proven coal reserves as at the end of 2008. On the other hand, China only has 1.2% and 1.3% of the world's proven oil and gas reserves and as at the end of 2008, respectively. According to the China Investment Consulting's Report on China's Coal Industry 2009-2012, around 50% of China's coal resources are concentrated in regions between the Greater Xing'an Mountain in the north of China and Taihang, Helan Mountain, which encompass the areas of Inner Mongolia, Shanxi, Shaanxi, Ningxia, Gansu, and Henan. Most of the remaining 50% is concentrated in Guizhou, Yunnan and Sichuan provinces.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

China is the world's largest coal producing country, having produced 1,416 million tonnes oil equivalent of coal in 2008 and sharing 42.5% of the global production, according to the BP Statistical Review 2009. Among the world's top coal producing countries, China is experiencing a fast growth rate in production. From 2003 to 2008, coal production in China grew at a CAGR of 10.2%, outpacing the global CAGR of 5.7%. Meanwhile, China is expected to continue to be the world's largest producing country of coal.

China is also the world's largest coal consuming country, having consumed 1,406 million tonnes oil equivalent of coal in 2008 and sharing 42.6% of the global consumption, according to the BP Statistical Review 2009. From 2003 to 2008, coal consumption in China grows at a CAGR of 10.5%, outpacing of the global CAGR of 4.9%. As China lacks significant oil and natural gas resources, coal is its most important energy resource. According to the China's National Bureau of Statistics, coal accounted for 69.5% of the country's total primary energy consumption in 2007.

Coal mining machinery industry

As mentioned in the section headed "Industry Overview" of the Circular, since 2000, the rapid increase in coal consumption has led to an unparalleled and robust growth in the coal mining industry in China. Equipment and service industries providing coal mining, processing and utilization have also entered into one of the most rapid development stages in history, as significant growth in coal production, as well as deeper mine processing levels have reinforced the needs of the industry. In addition, the significant improvement in sales revenue and net income in the coal mining industry have stimulated further demand for new mining machinery equipment. According to China's National Bureau of Statistics, fixed asset investment in mining and washing of coal industry in China increased from RMB69.0 billion in 2004 to RMB241.1 billion in 2008 with a CAGR of 36.7%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to a research report on China coal mining machinery industry issued by the China National Coal Machinery Industry Association (《中國煤炭機械工業協會》) in July 2009, the total sales value of coal mining machinery industry increased from approximately RMB10.4 billion in 2003 to approximately RMB58.0 billion in 2008, representing a CAGR of 41.0%. In particular, the total sales value of hydraulic roof supports increased from approximately RMB1.4 billion in 2003 to approximately RMB10.8 billion in 2008, representing a CAGR of 50.0%.

According to the China National Coal Machinery Industry Association, imported coal mining machinery only accounted for approximately 3% of the total coal mining machinery market in China between 2003 and 2008. China's coal mining equipment manufacturing industry is characterized by a large number of domestic manufacturers and is relatively fragmented. According to the China National Coal Machinery Industry Association, there were approximately 330 domestic coal machinery manufacturers and approximately 90 domestic hydraulic roof supports manufacturers in China in 2008.

The China National Coal Machinery Industry Association also states that the average life span of most coal mining machinery produced domestically is around five years. As a result, the demand for new PRC coal mining machinery for the coming few years is believed to continue in line with the rapid growth in the sales volume of PRC coal mining machinery over the past few years. Furthermore, the demand for aftermarket services and parts of coal mining machinery will increase as the mechanisation level of existing coal mines and the construction of new coal mines also increases.

For further details relating to the coal industry and the coal mining machinery industry, please refer to the "Industry overview" section of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. *Reasons for and benefits of the Acquisition*

As stated in the Letter from the Board, the Group operates in a highly competitive home video products market and faces challenges from illegal internet downloads and piracy. In addition, there has been a lack of major video titles released in 2008, and the number of theatrical film releases has decreased further. Such factors have largely driven the Group to seek diversification of its business into new areas with high-growth potential. Opportunities in the energy resources sector have been considered by the Directors as an area with a positive outlook in the long term, specifically, opportunities in the mining and infrastructure equipment manufacturing sector. Upon Completion, the Company is expected to benefit from the equipment manufacturing technology and expertise of the Target Group, and be able to enter into the mining equipment manufacturing market in the PRC. With the continuous development in the PRC economy, the Directors expect that demand for energy in the PRC will keep increasing, resulting in an increasing volume of coal production in the PRC. At the same time, the PRC government has placed more emphasis on improving general mining safety in order to reduce or avoid fatal and other serious mining accidents. This has prompted mining enterprises to invest in establishing facilities with a greater focus on safety in production. The growth of the coal mining industry in the PRC, combined with more emphasis on improving safety in the mining industry is expected to create opportunities for equipment manufacturers. Therefore, the Directors consider the Target Group's business prospects to be promising and the Acquisition presents an opportunity for the Company to broaden its income stream by entering into the coal mining equipment business.

As stated in the "Risk factors" section in the Circular, there are risk factors associated with the Acquisition, including (i) the Acquisition constitutes an investment in a new business sector; (ii) the business risks relating to the Target Group's business; and (iii) risks relating to conducting business in the PRC. Based on our review of such risk factors and further discussions with the management of the Company and the Target Group, we note that certain of such risk factors such as fluctuation in the price and supply of raw material and uncertainties in government regulations and laws in the PRC on the mining equipment industry are inherent in the mining equipment industry in the PRC as a whole, which are beyond the control of the Company. On the other hand, there are certain risk factors such as the requirement for continuous capital investment, the research and development ability to achieve technological innovation and the need for an experienced management team to operate the Target Group, which fall under the operating scope of the Target Group and are manageable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the nature of the aforesaid risk factors, we consider that they are not uncommon in the mining equipment business in the PRC and shall not be the particular barriers to the Company's proposed investment in the industry. We understand that the Board has given a prudent and thorough assessment of such risk factors against the benefits expected to be brought by the Acquisition and concludes that the Acquisition is in the interests of the Company and the Shareholders as a whole. In particular, the Directors are of the view that the potential benefits of the Acquisition outweighs the related risks on the basis that the proposed directors of the Company and senior management of the Target Group possess expertise in the mining equipment industry in the PRC. Mr. Williams and Mr. Li, both proposed executive directors of the Company, co-founded IMM, which was initially engaged mainly in the manufacturing of hydraulic roof supports for underground coal mining. Mr. Phil Jin, the Chief Executive Officer and President of Zhengzhou Siwei, has more than 20 years experience in the technology industry. As such, we concur with the view of the Directors that the management of the Target Group have experience in controlling the risks. Based on our discussion with the management of the Group and the Target Group regarding the potential impact of those risk factors which are in relation to the operating scope of the Target Group, we concur with the Directors' view that certain risk factors can actually be mitigated or controlled and the potential benefits of the Acquisition shall not be outweighed by them.

As regards to the legal irregularities relating to certain properties of the Target Group, the Controlling Shareholders and Mr. Li Rubo have undertaken to indemnify the Enlarged Group against any damages, losses, expenses or liabilities which are or become payable or incurred by any members of the Enlarged Group, including relocation costs and expenses (if any), as a result of, relating to, arising from or in connection with any title defects of the properties owned, leased or otherwise used by the Enlarged Group. Having considered that (i) the relevant authorities have issued confirmation letters to confirm that the construction of the buildings has complied with the overall planning of Guangwu; (ii) the relevant authorities also permitted Zhengzhou Siwei to undergo construction and process construction permit and re-apply construction permit certificate until relevant procedures are completed and that Zhengzhou Siwei may use the relevant properties to undergo manufacturing and operation as usual; (iii) the PRC legal advisers to the Company confirmed that the possibility to impose penalties by the relevant authorities on Zhengzhou Siwei due to Zhengzhou Siwei using the lands and buildings before obtaining the relevant certificates is minimal; and (iv) Zhengzhou Siwei is preparing to relocate the manufacturing and storage facilities with unauthorised leases to appropriate areas, we are of the view that there are mitigating factors in place to reduce the risk that the Target Group's operation and results to be materially and adversely affected.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As regards to the potential legal disputes and/or litigation with IMM in relation to the right of first offer (“RFO”) and the right of first refusal (“RFR”) with respect to certain “Designated MML Investments”, which are defined in the consultant subscription agreements (“Consultant Subscription Agreements”) entered into by each of Mr. Li Rubo, Williams Realty Co, LLC and Mr. Williams (collectively, “Subscribers”) with IMM on 16 May 2006 as “the Zhengzhou-Siwei, Baoji-Siwei and Beijing-Siwei businesses and their subsidiaries and corporate affiliates, together with any expansion thereof or change thereto”, details of which are set out in the sections headed “Risk Factors” and “History and background of the Target Group” of the Circular, we note that (i) notwithstanding the RFO notice dated 3 December 2009 (“RFO Notice”) was delivered to MML on 4 December 2009 which was after the execution of the Agreement, the condition that all consents required for implementation or completion be obtained before the Agreement could be completed; (ii) IMM did not reply within the contractual 90-day period, thereby forfeiting its RFO right and therefore RFR right; (iii) the Acquisition was covered in the RFO Notice delivered to IMM on 4 December 2009; and (iv) the other two Designated MML investments no longer exist and IMM has no continuing rights with respect to either of them.

Each of the Vendor, Mr. Williams and Mr. Li Rubo has agreed to indemnify the Company against all damages, losses and expenses suffered in connection with the Acquisition. Shareholders should note that there is no assurance that the Vendor, Mr. Williams and Mr. Li Rubo will indemnify the Enlarged Group against any damages, losses, expenses or liabilities which may arise as a result of, relating to or in connection with the Acquisition as agreed, details of which are disclosed in the section headed “Risk Factors” of the Circular.

Having considered (i) the legal opinion by the legal advisers to the Company as to New York law, in particular, the procedural requirements with respect to the disposition by MML of its interests in the Designated MML Investments were fulfilled by MML and IMM no longer has continuing rights with respect to the Designated MML Investments and that the Subscribers have not breached any of their obligations under the Consultant Subscription Agreements; and (ii) as stated in the section headed “History and background of the Target Group” in the Circular, (a) the Directors are of the view that there is no impact on the Company and the Target Group as the Company and the Target Group are not parties to the Consultant Subscription Agreements nor the private arrangements between the Subscribers and IMM; and (b) the Directors also believe, based on the advice from the legal advisers as to New York law, that the Acquisition is no longer subject to any consents from IMM and IMM no longer has continuing rights (including RFO and RFR rights) with respect to Zhengzhou Siwei, we consider that the risks relating to the potential legal disputes and/or litigation with IMM in relation to the RFO and RFR will not affect our overall analysis of the terms of the Acquisition.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Independent Auditor's Report in the 2009 Annual Report, the financial statements of the Company has been prepared on a going concern basis, the validity of which depends upon the success of the fund raising activities of the Company to obtain funding to finance the working capital requirement of the Group. As stated in the section headed "Working Capital" in the "Financial information of the Target Group" section in the Circular, the Directors (together with the proposed Directors) are of the opinion that, in the absence of unforeseen circumstances and after taking into account (a) the proposed Placing, and (b) the financial resources available to the Enlarged Group after Completion (including its operating cash flow and available banking and other facilities), the Enlarged Group will have sufficient working capital for a period of twelve months from the date of the Circular. Furthermore, as stated in the unaudited pro forma financial information to the Enlarged Group included as Appendix III to this Circular, following the Completion, the financial position of the Group will improved from a net liabilities position to a net assets position. Accordingly, taking into account the above, we consider the Acquisition will strengthen the financial position of the Group which is beneficial to the Company and the Shareholders as a whole.

We note from the Accountants' Report on Zhengzhou Siwei as set out in Appendix I of the Circular that as Zhengzhou Siwei has no control and influence to Jiaozuo Siwei and Baoji Siwei after Zhengzhou Siwei's disposals of these companies in 2007, Zhengzhou Siwei's management has not been able to gather sufficient information to consolidate Jiaozuo Siwei's results, up to the respective date of disposal into the HKFRS financial statements and to account for the result of Baoji Siwei in the HKFRS financial statements by the equity method of accounting. This is not in accordance with the requirements of HKAS 27 "Consolidated and Separate Financial Statements" and HKAS 28 "Investments in Associates" issued by the Hong Kong Institute of Certified Public Accountants. The reporting accountants of Zhengzhou Siwei are unable to quantify the effect on the departure from the requirements of the relevant Hong Kong Accounting Standards (the "Qualification").

Taking into account that (i) Jiaozuo Siwei and Baoji Siwei were disposed of in 2007, such disposals have no further impact on the earnings of Zhengzhou Siwei for the two years ended 31 December 2008 and 2009; and (ii) our analysis of the terms of the Acquisition is made with reference to, among other things, the profit attributable to equity holders of Zhengzhou Siwei for the two years ended 31 December 2008 and 2009 as set out in the section headed "5.2.1 The consideration of the Acquisition" below, we do not consider that the Qualification will affect our analysis of the terms of the Acquisition.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account that (i) the Acquisition is consistent with the Group's strategy to diversify its revenue stream and prospect of enhancing the Group's profitability; (ii) the coal mining machinery industry in the PRC is a fast growing industry and the prospects of which appear to be promising; and (iii) the Group has been suffering a loss and that its operations show no sign of improvement, we concur with the view of the Directors that the Acquisition is consistent with the Group's strategy to broaden its income stream by entering into the coal mining equipment business and is in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Acquisition

5.1 The Agreement

Date:

9 October 2009 (as amended by a supplemental deed dated 31 March 2010)

Parties:

- (a) Vasky Energy Ltd., (as the Purchaser); and
- (b) MML (as the Vendor).

Details of the beneficial owners of MML are set out in the Letter from the Board.

The Purchaser has conditionally agreed to acquire from the Vendor the Sale Share, which represents 100% of the issued share capital of the Target free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances or third-party rights of any nature and with all dividends, benefits and other rights as at the date of the Agreement or thereafter becoming attached or accruing thereto as from the date of the Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The aggregate consideration for the Acquisition payable by the Purchaser to the Vendor shall be HK\$1,164,000,000, which shall be satisfied by procuring the Company to issue 4,000,000,000 Consideration Shares at an issue price of HK\$0.291 per Consideration Share to the Vendor at Completion. The consideration has been determined after arm's length negotiations between the Purchaser and the Vendor by reference to the performance and prospects of the Target Group, as well as the price earning multiple of comparable companies. It represents a historical price earning multiple of approximately 8.9 times of the Target Group's audited consolidated profit attributable to the owner of the Target for the year ended 31 December 2009 of approximately HK\$130.9 million.

According to the Target Group's consolidated accounts as at 31 December 2009, the Target was indebted to an independent third party creditor in the principal amount of US\$17,393,000 (equivalent to approximately HK\$135.7 million) bearing interest at 8% per annum and compound annually together with interest accrued in the amount of approximately US\$2,564,000 (equivalent to approximately HK\$20.0 million). Interest in the amount of approximately US\$711,000 (equivalent to approximately HK\$5.5 million) was further accrued since 1 January 2010 up to the Latest Practicable Date. Such loan was provided for the acquisition of Zhengzhou Siwei in 2007 and working capital purpose. The Vendor has pledged its interest in the Sale Share to TJCC Holdings Ltd. as security for repayment of the said debt. It is one of the conditions precedent to Completion that external financing will be obtained by the Purchaser and/or the Vendor to repay such loan. At the time of borrowing, the creditor was IMM, a company listed on the Main Board of the Stock Exchange. Pursuant to the prospectus of IMM dated 29 January 2010, as part of the reorganization, such loan together with interest receivables had been assigned by IMM to TJCC Holdings Ltd., a controlling shareholder of IMM. In April 2010, the loan and accrued interest due to TJCC Holdings Ltd. were partially repaid by bridge loans from Mr. Williams, Williams Realty Co, LLC, and Mr. Li Rubo of approximately US\$3,437,000 (equivalent to approximately HK\$26.8 million) and US\$3,011,000 (equivalent to approximately HK\$23.5 million) respectively. As at the Latest Practicable Date, the total outstanding principal of the loan and interest accrued due from the Target due to TJCC Holdings Ltd. were approximately US\$14.0 million (equivalent to approximately HK\$109.2 million) and US\$180,000 (equivalent to approximately HK\$1.4 million) respectively. As at the Latest Practicable Date, the principal amount of the bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC was approximately US\$6.4 million (equivalent to approximately HK\$49.9 million) bearing interest at 8% per annum and compound annually. The outstanding accrued interests of the bridge loans was approximately US\$83,000 (equivalent to approximately HK\$647,000) as at the Latest Practicable Date. The Company intends to conduct fund raising exercises to raise the amount necessary to repay the bridge loans from Mr. Williams and one of his companies, Mr. Li Rubo and the outstanding amount due to TJCC Holdings Ltd.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The aggregate consideration for the Acquisition shall be satisfied by procuring the Company to issue 4,000,000,000 Consideration Shares at an issue price of HK\$0.291 per Consideration Share to the Vendor at Completion.

Conditions precedent:

Completion of the Agreement will be conditional upon certain conditions precedent set out in the Agreement having been fulfilled. Such conditions precedent include, among others, the following:

- the approval by the Independent Shareholders at the EGM of (1) the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares); (2) the Whitewash Waiver; and (3) transactions contemplated under the Agreement;
- the Executive granting the Whitewash Waiver to the Vendor;
- the approval of new listing of the Shares on GEM by the Stock Exchange as a result of the transactions proposed under the Agreement;
- the obtaining of external financing by the Purchaser and/or the Vendor by way of capital market fund raising or other means in an amount not less than HK\$200 million which would be used, among other things, to repay the loan and accrued interest due from the Target to a third party creditor, the bridge loans, and the balance to be used for capital expenditure of the Target Group and working capital of the Company and the Target Group;
- the Company continuing to meet the 25% minimum public float requirements under Rule 17.36 of the GEM Listing Rules immediately after Completion and upon issuance of the Consideration Shares; and
- the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a firm of PRC legal advisers appointed by the Purchaser in relation to the Agreement and the transactions contemplated thereunder, including but not limited to the due incorporation and property interests of Zhengzhou Siwei and such other matters as may be reasonably required by the Purchaser in relation to Zhengzhou Siwei.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For details of the conditions precedent, please refer to the Letter from the Board. As at the Latest Practicable Date, no condition precedent has been fulfilled or waived.

In the event that any of the conditions precedent are not fulfilled on or before 31 December 2010 (or such later date as may be agreed between the Vendor and the Purchaser), the Agreement shall terminate and neither of the parties to the Agreement shall have any claim against the other for costs, damages, compensation or otherwise (save with respect to any breach to the clause of the Agreement stating that the Vendor and the Purchaser shall each use their respective best endeavours to procure the fulfilment of the conditions as set out in the Agreement as soon as possible), unless otherwise agreed between the parties to the Agreement.

5.2 Factors taking into account when considering the consideration for the Acquisition

5.2.1 The consideration of the Acquisition

Pursuant to the Agreement, the consideration for the Acquisition payable by the Purchaser to the Vendor shall be HK\$1,164,000,000. The consideration has been determined after arm's length negotiations between the Purchaser and the Vendor by reference to the performance and prospects of the Target Group, as well as the price earning multiple of comparable companies.

As stated in the Letter from the Board, the Target was indebted to an independent third party creditor in the principal amount of US\$17,393,000 (equivalent to approximately HK\$135.7 million) bearing interest at 8% per annum and compound annually together with interest accrued in the amount of approximately US\$2,564,000 (equivalent to approximately HK\$20.0 million) as at 31 December 2009. Interest in the amount of approximately US\$711,000 (equivalent to approximately HK\$5.5 million) was further accrued since 1 January 2010 up to the Latest Practicable Date. Such loan was provided for the acquisition of Zhengzhou Siwei in 2007 and working capital purpose. The Vendor has pledged its interest in the Sale Share to TJCC Holdings Ltd. as security for repayment of the said debt. In April 2010, the loan and accrued interest due to TJCC Holdings Ltd. were partially repaid by bridge loans from Mr. Williams, Williams Realty Co, LLC, and Mr. Li Rubo of approximately US\$3,437,000 (equivalent to approximately HK\$26.8 million) and US\$3,011,000 (equivalent to approximately

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

HK\$23.5 million) respectively. As at the Latest Practicable Date, the total outstanding principal of the loan and interest accrued due from the Target due to TJCC Holdings Ltd. were approximately US\$14.0 million (equivalent to approximately HK\$109.2 million) and US\$180,000 (equivalent to approximately HK\$1.4 million) respectively. As at the Latest Practicable Date, the principal amount of the bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC was approximately US\$6.4 million (equivalent to approximately HK\$49.9 million) bearing interest at 8% per annum and compound annually. The outstanding accrued interests of the bridge loans was approximately US\$83,000 (equivalent to approximately HK\$647,000) as at the Latest Practicable Date. The Company intends to conduct fund raising exercises to raise the amount necessary to repay the bridge loans from Mr. Williams and one of his companies, Mr. Li Rubo and the outstanding amount due to TJCC Holdings Ltd. As such, the consideration for the Acquisition plus the repayment of the loans would be approximately HK\$1,325.1 million.

As stated in the Letter from the Board, the Directors consider that the consideration of HK\$1,164 million plus the repayment of (a) loans (including accrued interest) due from the Target to TJCC Holdings Ltd.; and (b) loans (including accrued interest) due from Mr. Williams, Williams Realty Co, LLC and Mr. Li Rubo by the Company is fair and reasonable to the Company and the Shareholders, and justifiable because, among others:

- (i) the consideration plus the repayment of the loans has been determined after arm's length negotiations between the Purchaser and the Vendor;
- (ii) the Group has been suffering losses for the last three financial years whereas the Target recorded profits for the Track Record Period. Accordingly, the Directors (including all the independent non-executive Directors) are of the view that the Acquisition can strengthen the financial position of the Group and the Acquisition is in the interests of the Company and the Shareholders;
- (iii) the consideration will be wholly satisfied by allotment and issuance of the Consideration Shares. This is in the interests of the Group as it facilitates the Group, which is still loss making, to acquire the entire interest over a business that is profit making without cash outlay;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) the issue price of HK\$0.291 per Consideration Share is at a premium over the closing price of the Shares as quoted on the Stock Exchange of HK\$0.233 per Share on 8 October 2009, being the last full trading day (the “Last Full Trading Day”) immediately prior to the suspension in trading of the Shares at 3:40 p.m. on 9 October 2009, and the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.233 per Share for the five consecutive trading days ended on the Last Full Trading Day; and
- (v) according to a research report on China Coal Mining Machinery Industry issued by the China National Coal Machinery Industry Association, as disclosed in the “Industry Overview” section of the Circular, the total sales value of hydraulic roof supports increased from approximately RMB9.4 billion in 2007 to RMB10.8 billion in 2008, representing an increase of 15.6%. The turnover of Zhengzhou Siwei in 2008 increased by approximately 79.0% as compared to 2007. Accordingly, Zhengzhou Siwei outperformed the industry market.

Peer group comparison

Based on (i) the consideration for the Acquisition plus the repayment of bridge loans from Mr. Williams and one of his companies, Mr. Li Rubo and the outstanding amount due to TJCC Holdings Ltd. of HK\$1,325.1 million as stated above, and (ii) the net profit achieved by the Target Group of approximately HK\$62.8 million and HK\$130.9 million for the year ended 31 December 2008 and 31 December 2009 respectively, the price to earnings ratio for the Target Group under the Acquisition is approximately 21.1 times and 10.1 times based on the earnings of 2008 and 2009, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to assess the reasonableness of the consideration of the Acquisition, to the best of our knowledge, we have attempted to compare it with the market statistics of all those companies listed on the Stock Exchange which are principally engaged in the manufacturing and sales of coal mining machinery in the PRC (together the “Peer Companies”). Details of our findings on the Peer Companies are summarised in the following table:

Company name	Stock code	Market capitalisation as at the Latest Practicable Date	Profit attributable to owners for the year ended 31 December 2008	Profit attributable to owners for the year ended 31 December 2009	Closing price as at the Latest Practicable Date	Historical earnings per share for the year ended 31 December 2008	Historical price to earnings ratio using 2008 earnings (“2008 PER”)	Historical earnings per share for the year ended 31 December 2009	Historical price to earnings ratio using 2009 earnings (“2009 PER”)
		(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$)				
Sany Heavy Equipment International Holdings Co Ltd.	631	18,260	215	557	8.80	HK\$0.15	58.7	HK\$0.36	24.4
International Mining Machinery Holdings Limited	1683	4,641	171	260	3.57	HK\$0.22	16.2	HK\$0.33	10.8
Average							37.5		17.6
the Target Group	N/A	1,313.4	62.8	151.5	N/A	N/A	21.1	N/A	10.1

Source: website of the Stock Exchange – www.hkex.com.hk

Note: the amount in RMB are converted to HK\$ at a conversion rate of RMB0.88 to HK\$1.00.

As shown in the table above, the 2008 PER of the Peer Companies ranges from approximately 16.2 times to 58.7 times with an average of approximately 37.5 times. The Target Group’s PER based on the historical earnings of 2008 of approximately 21.1 times is within the range of the Peer Companies and below the average of the Peer Companies.

Using a more recent earnings data, the 2009 PER of the Peer Companies ranges from approximately 10.8 times to 24.4 times with an average of approximately 17.6 times. The Target Group’s PER of approximately 10.1 times is below the range of the Peer Companies.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the factors outlined above, we concur with the views of the Directors that the consideration payable under the Acquisition to be fair and reasonable and in the interests to the Company and its Shareholders.

5.2.2 Issue price of the Consideration Shares

Pursuant to the Agreement, the consideration shall be satisfied by procuring the Company to issue 4,000,000,000 Consideration Shares at an issue price of HK\$0.291 per Consideration Share (the “Issue Price”) to the Vendor at Completion. The Issue Price represents:

- (i) a discount of 3.0% to the closing price of the Shares as quoted on the Stock Exchange of HK\$0.300 per Share, being the last price at which the Shares were traded immediately prior to the suspension in trading of the Shares at 3:40 p.m. on 9 October 2009 (the “Last Trading Day”);
- (ii) a premium of approximately 24.9% over the closing price of the Shares as quoted on the Stock Exchange of HK\$0.233 per Share on 8 October 2009 (i.e., the Last Full Trading Day);
- (iii) a premium of approximately 24.9% over the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.233 per Share for the five consecutive trading days ended on the Last Full Trading Day;
- (iv) a premium of approximately 17.8% over the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.247 per Share for the thirty consecutive trading days ended on the Last Full Trading Day; and
- (v) a discount of approximately 55.9% to the closing price of the Shares as quoted on the Stock Exchange of HK\$0.660 per Share on the Latest Practicable Date.

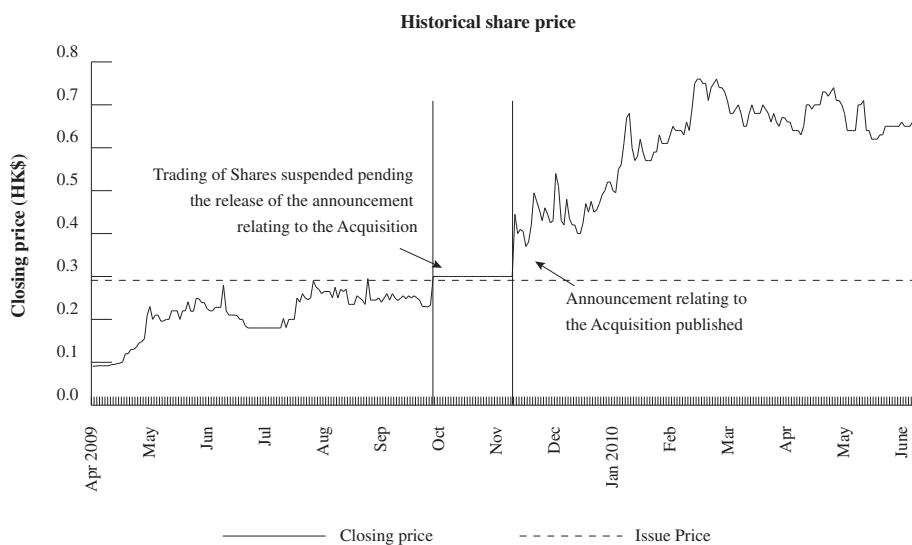
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The price at which the Consideration Shares are to be issued was determined with reference to the then market price and prospects of the Enlarged Group. Based on the closing price of HK\$0.233 per Share on the Last Full Trading Day and closing price of HK\$0.66 per Share on the Latest Practicable Date, the aggregate value of the Consideration Shares was HK\$932,000,000 and HK\$2,640,000,000 respectively.

The Consideration Shares will be issued fully paid and will rank pari passu in all respects with all other Shares in issue at the date of their issue. The Consideration Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the EGM.

Analysis of Share price

The following chart shows the Share price performance for the six months before the Last Trading Day up to and including the Latest Practicable Day (the “Review Period”):



Source: website of the Stock Exchange – www.hkex.com.hk

During the Review Period, the Share price has been generally trading on a rising trend. The lowest closing Share price was HK\$0.091 recorded on 9 and 14 April 2009 and the highest closing Share price was HK\$0.76 recorded in early March 2010.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Prior to the announcement of the Acquisition, the Shares had generally been trading below the Issue Price. There were only two trading days where the closing price of the Shares was above the Issue Price.

After the announcement of the Company dated 20 November 2009 in respect of the Acquisition, the Share price rose by approximately 48.3% from HK\$0.3 per Share to HK\$0.445 per Share. Since then, the price of the Shares continued to rise and reached to as high as HK\$0.76 in early March 2010. Thereafter, the Share price generally traded between HK\$0.60 and HK\$0.75 per Share.

Peer group comparison

In order to assess the fairness and reasonableness of the Issue Price, to the best of our knowledge, we have reviewed the transactions announced by all the other companies listed on the Stock Exchange which (i) constituted very substantial acquisitions under the Listing Rules; and (ii) involved the issue of consideration shares which led to the introduction of a single largest shareholder to the respective companies (the “Consideration Shares Comparables”) during the last three months preceding the Last Trading Day. As the Consideration Shares Comparables involve the issuance of consideration shares as part of the consideration for acquisitions, we believe that the Consideration Shares Comparables would provide a benchmarking comparison for our analysis as the main consideration for determining the issue price of the shares issued under such transactions are also the market price of the relevant shares. In addition, we consider that the period of about three months prior to the Last Trading Day provides a period of history of market movements for the purpose of our analysis. Although the Consideration Shares Comparables are not engaged in similar businesses as the Company nor that of the Target Group and the terms of issuance of each of the transactions may be subject to their respective different circumstances such as different financial standing or business performance, we are of the view that the Consideration Shares Comparables would provide a basis of reference of comparison as they could reflect recent market trends of the terms used in issuing consideration shares as consideration for an acquisition. The references of issue prices to the closing prices of the Consideration Shares Comparables are set out as below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company	Stock code	Principal business activities	Market capitalisation as at the Latest Practicable Date (HK' million)	(Discount)/ premium to/ over the closing price on the last trading day (Note 1) (%)	(Discount)/ premium to/ over the average closing price for the last 5 trading days up to and including the last trading day (Note 1) (%)	(Discount)/ premium to/ over the closing price on the Latest Practicable Day (%)
1 October 2009	RBI Holdings Limited	566	the design, manufacture and sale of toys	3,367	1.23	Not disclosed	77.84
23 September 2009	Sino-Tech International Holdings Limited	724	manufacturing and trading of electronic and electrical parts and components, and manufacturing and trading of cigarette lighters and lighter parts	2,702	(68.40)	(63.70)	(72.41)
16 September 2009	Buildmore International Limited	108	property investment and trading and property development	383	(22.94)	(19.62)	(42.07)
7 September 2009	Winbox International (Holdings) Limited	474	design, manufacturing, and sales of packaging products	1,473	(26.67)	(24.40)	8.64
4 September 2009	Broad Intelligence International Pharmaceutical Holdings Limited	1149	manufacture, sale, research and development of pharmaceutical products and investment holding	1,038	(1.52)	(7.67)	(8.45)
25 August 2009	EPI (Holdings) Limited	689	sourcing and trading of non ferrous metals and consumer electronics products	1,201	(33.30)	(38.10)	74.31
20 August 2009	The Quaypoint Corporation Limited	2330	(i) the design, supply and integration of automation and control system; (ii) trading of automation products and electronic components; (iii) property investment; (iv) investment in listed securities; and (v) trading of mobile phones	767	(13.79)	(11.03)	11.11
14 August 2009	Sino Union Petroleum & Chemical International Limited	346	trading of fuel oil and polyurethane materials, and oil and gas exploration, exploitation and operation	4,157	3.40	0.00	32.35
Average					(20.25)	(23.50)	10.51
Maximum					3.40	0.00	80.27
Minimum					(68.40)	(63.70)	(72.09)
20 November 2009	the Company		home video distribution, theatrical release arrangements, film rights sub-licensing and game distribution	264	(3.0)	19.3	(55.9)

Source: website of the Stock Exchange – www.hkex.com.hk

Note:

1. Last trading day refers to the respective last trading days for the Consideration Shares Comparables prior to the publication of the respective announcements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the analysis of the peer group comparison set out above, the Issue Price of the Consideration Shares represents a discount of 3% to the closing price of the Shares on the Last Trading Day. We note that with the exception of two companies (namely RBI Holdings Limited and Sino Union Petroleum & Chemical International Limited), all the other six comparables selected issued shares at discounts to their respective closing price on the last trading day ranging from 1.52% (for Broad Intelligence International Pharmaceutical Holdings Limited) and the rest with discounts of between 13.79% to 68.40%.

Adopting the comparison with reference to the last five trading days up to and including the Last Trading Day, the Issue Price represents premium of 19.3% to the average closing price for the last five trading days up to and including the Last Trading Day, as compared with the range of discounts of between 7.67% and 63.70% for six comparables selected.

Shareholders should also note that for each of the companies selected, the determination of the issue price is influenced by factors pertaining to those individual companies. Accordingly, it may not be meaningful to compare the Issue Price with the average results as set out in the above table. However, as shown in the above basis, it is noted that the Issue Price of the Consideration Shares was set, on the whole, at a higher price than the historical closing prices of the comparables selected. Accordingly, we consider the level of the Issue Price of the Consideration Shares to be fair and reasonable in this analysis.

Following the publication of the Announcement, the closing Share price rose substantially from HK\$0.3 on the Last Trading Day to HK\$0.66 on the Latest Practicable Date. The Issue Price represents a discount of approximately 55.9% to the closing Share price on the Latest Practicable Date. Given that there is no improvement in the operations of the Group as evidenced by the continue deterioration in the first quarter 2010 results as stated in the section headed “Information on the Group” above, the substantial increase in Share price might reflect the market expectation on the prospects of the Target Group, which may or may not be sustainable in the future. Furthermore, the Issue Price was determined after arm’s length negotiations between the parties with reference to the then market price of the Shares prior to the signing of the Agreement. Accordingly, we consider that it is more appropriate to make reference to the then prevailing market price of the Share prior to the signing of the Agreement (i.e. Share price before the Last Trading Day) as opposed to the closing Share price on the Latest Practicable Date in determining the fairness and reasonableness of the Issue Price.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. *Possible financial effect as a result of the Acquisition*

6.1 *Accounting effect*

Following Completion, each of the Target and its subsidiaries (i.e. Zhengzhou Siwei) will become a subsidiary of the Company and their financial results will be consolidated into the Group's financial results.

In addition, the implementation of the Acquisition is expected to give rise to goodwill or excess in the net fair value of the net identifiable assets over the fair value of the total cost of the Acquisition of approximately HK\$393.4 million. Goodwill represents the excess of the combined value of the fair value of net identifiable assets of the Group over (a) the fair value of cost of business combination at Completion and (b) transaction costs directly attributable to the Acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The extent to which any goodwill impairment provision may be required in the Group's future financial statements would depend on the assessment as to whether any impairment on goodwill may be necessary.

6.2 *Cash position and total equity*

Based on the Company's audited consolidated statement of financial position as at 31 December 2009 set out in Appendix II to the Circular, the Group had bank and cash balances of approximately HK\$5.3 million as at 31 December 2009. Given that the total assets of the Group was approximately HK\$31.2 million and total liabilities of the Group was approximately HK\$46.9 million as at 31 December 2009, the Group had a net liabilities position of approximately HK\$15.7 million.

Based on the unaudited pro forma consolidated statement of financial position of the Group as set out in Appendix III to the Circular, prepared on the assumptions that the Acquisition had been completed on 31 December 2009, the Enlarged Group would have bank and cash balances in the amount of approximately HK\$226.2 million. The Enlarged Group would have total assets of approximately HK\$2,246.0 million and total liabilities of approximately HK\$1,283.5 million. Accordingly, the net assets of the Enlarged Group would be approximately HK\$962.5 million, a substantial improvement from the net liabilities position of the Group as at 31 December 2009.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6.3 Profit and losses

Based on the Company's audited consolidated statement of comprehensive income for the year ended 31 December 2009 as set out in Appendix II to the Circular, the Group experienced a loss attributable to equity holders of the Company of approximately HK\$30.9 million for the year ended 31 December 2009.

Based on the pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2009 as set out in Appendix III to the Circular, the Enlarged Group would offer a substantial improvement in profit and have a profit of approximately HK\$323.8 million attributable to equity holders of the Company.

In summary, given that (i) the Acquisition will improve the Group from a net liabilities position to net assets position; and (ii) the Enlarged Group would achieve a profit of HK\$323.9 million as opposed to a loss generated by the Group, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

7. *Potential dilution effect on the shareholdings of the public Shareholders*

The Consideration Shares shall be issued to the Vendor or its nominees upon Completion. The Consideration Shares represent (a) approximately 9.98 times the total number of issued Shares of 400,706,581 Shares as at the Latest Practicable Date; and (b) approximately 71.38% of the issued share capital of the Company as enlarged upon the issue of the Consideration Shares and maximum number of the Placing Shares but before full conversion of all outstanding convertible bonds of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the public Shareholders were interested in approximately 69.7% of the issued share capital of the Company. If the Acquisition and the Placing are approved and becomes unconditional, the Company will issue 4,000,000,000 Consideration Shares to the Vendor and up to 1.2 billion Placing Shares to the placees. It is a condition precedent to the Agreement that the Company will continue to meet the 25% minimum public float requirements under the GEM Listing Rules.

Assuming Completion and upon issue and allotment of the Consideration Shares, maximum number of the Placing Shares and the Remuneration Shares, the shareholding position of the existing public Shareholders will be affected as follows:

	As at the Latest Practicable Date	Upon issue and allotment of the Consideration Shares, maximum number of the Placing Share and the Remuneration Shares, but before full conversion of all outstanding convertible bonds of the Company	Dilution effect	Upon issue and allotment of the Consideration Shares, maximum number of the Placing Shares and the Remuneration Shares, and full conversion of all outstanding convertible bonds of the Company	Dilution effect
Shareholding of existing public Shareholders	69.70%	4.99% ¹	92.8%	4.93% ¹	92.9%

Note 1: The dilution effect is for illustration purpose only.

Based on the above table, the shareholding of the Shareholders would be diluted by up to approximately 92.9% upon issue and allotment of the Consideration Shares and maximum number of the Placing Shares and full conversion of all outstanding convertible bonds of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As with many re-capitalisation exercises for companies in severe financial difficulties or with inherent uncertainties to continue to operate as a going concern, shareholdings of existing shareholders are invariably diluted with the introduction of new capital. In order to assess the fairness and reasonableness of the level of dilution under the Acquisition, we have, to the best of our knowledge, identified all the capital re-capitalisation and restructuring precedent transactions involving (i) the investor becoming the controlling shareholder of the company following completion of the transaction and (ii) debt restructuring and/or rescue from liquidation for all those companies listed on the Stock Exchange from 1 January 2009 to the Latest Practicable Date. Under the Acquisition and as demonstrated in the table above, the maximum dilution of the shareholding of existing public Shareholders of approximately 92.9% is in line with the precedent transactions, including the following:

Date of announcement	Company	Stock code	Public shareholding as at date of announcement (%)	Public shareholding after completion of transaction (%)	Dilution
14 May 2010	Pan Asia Mining Limited	8173	86.51	33.55	61.2%
24 March 2010	Imagi International Holdings Limited	585	61.40	3.40	94.5%
23 February 2010	Ever Fortune International Holdings Limited	875	48.09	1.17	97.6%
27 January 2010	Tonic Industries Holdings Limited	978	41.54	4.15	90.0%
22 September 2009	Creative Energy Solutions Holdings Limited	8109	43.83	2.19	95.0%
15 May 2009	SMI Corporation Limited	198	48.02	7.18	85.0%
24 February 2009	Ngai Lik Industrial Holdings Limited	332	64.84	6.48	90.0%
6 February 2009	3D-Gold Jewellery Holdings Limited	870	100.00	5.00	95.0%
			Maximum		97.6%
			Minimum		61.2%
			Average		88.4%
20 November 2009	The Company		69.7	4.93	92.9%

Source: website of the Stock Exchange – www.hkex.com.hk

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered (i) the potential effects of the Acquisition including the improvement from net liabilities position to net assets position; (ii) the existing loss-making business of the Group, its net liability position and the uncertainty as to whether it may be able to continue to operate as a going concern; (iii) that the Acquisition represents an opportunity for the Company to diversify into the coal mining machinery business in the PRC and the prospects of which appear to be promising; (iv) the Issue Price is set at a premium over the average closing price for the last five trading days up to and including the Last Full Trading Day as mentioned in the section headed “Issue price of the Consideration Shares” above; and (v) that it may be difficult for the Group to use other fund raising exercises such as rights issue or open offer in light of the significant amount of the funds required for the Acquisition, we are of the view that the dilution on the shareholding interests of the Independent Shareholders in the Company as a result of the issue of the Consideration Shares and the maximum number of the Placing Shares is acceptable.

II. The Whitewash Waiver

As a result of the Acquisition and assuming that there have been no other changes in the issued share capital of the Company since the Latest Practicable Date, the interest of the Vendor and its Concert Parties will exceed 30% of the enlarged issued share capital of the Company. Accordingly, the Vendor and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of the Company (other than those already owned or agreed to be acquired by the Vendor and its Concert Parties).

The Vendor will apply to the Executive for the Whitewash Waiver, and the Executive has indicated that, subject to application to be made by the Vendor, it will grant the Whitewash Waiver of which will be subject to, among other things, (1) approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM where voting on the relevant resolution(s) shall be taken by poll; (2) the Vendor and its Concert Parties not having acquired any voting rights of the Company in the six months prior to the date of the Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Acquisition under the Agreement; and (3) the Vendor and its Concert Parties not making any acquisitions or disposals of voting rights of the Company between the date of the Announcement and completion of the Acquisition unless with prior consent of the Executive.

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Agreement will not become unconditional and cannot proceed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our analysis of the terms of the Acquisition, the background and financial performance and positions of the Company, the business and financial performance and future prospects of the Target Group and the expected financial effects of the Acquisition as set out above, we consider that the Acquisition is in the long-term interests of the Company and the Shareholders as a whole and is fair and reasonable as far as the Independent Shareholders are concerned. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Agreement will be terminated in accordance with its terms and the Company will lose all the benefits that are expected to be brought by the successful completion of the Acquisition. Accordingly, we are of the opinion that, for the purposes of implementing the Acquisition and as discussed above, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM is in the interests of the Company and the Shareholders as a whole and are fair and reasonable.

III. The Placing

Two of the conditions precedent of the Agreement are (i) the external financing by the Purchaser and/or the Vendor in an amount of not less than HK\$200 million; and (ii) the maintaining of 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares.

In order to maintain 25% minimum public float of the Company immediately after Completion and the issuance of the Consideration Shares, the Company proposes to issue new Shares. Based on existing shareholding structure and the issue of 4 billion Consideration Shares to the Vendor, approximately 1,059 million new Shares have to be issued. The issue of new Shares also achieves the purpose of raising sufficient financing to meet the condition precedent.

Set out below are certain of the proposed terms of the Placing:

Number of the Placing Shares:	Up to 1.2 billion Placing Shares, representing approximately 299.5% of the Company's issued share capital as at the Latest Practicable Date and approximately 21.4% of the Company's issued share capital as enlarged by the allotment and issue of the Consideration Shares, the Placing Shares and the Remuneration Shares but before full conversion of all outstanding convertible bonds, being at least sufficient Shares so that the public float requirement is fulfilled.
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LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Placing price:	An expected minimum placing price of HK\$0.291 per Placing Share (equivalent to the issue price for the Consideration Shares)
Gross proceed:	Based on the expected minimum placing price of HK\$0.291 per Placing Share and the maximum number of Placing Shares of 1.2 billion, the gross proceed is approximately HK\$349.2 million.
Conditions of the Placing:	<p>The Company expects that completion of the Placing will be conditional upon, among other things,</p> <ul style="list-style-type: none">(i) the Stock Exchange granting the listing of, and permission to deal in, the Placing Shares;(ii) the approval of the Placing by Independent Shareholders at the EGM; and(iii) completion of the Acquisition.

Our view

The obtaining of external financing and the maintaining of 25% minimum public float of the Company are two of the conditions precedent to the Acquisition. Without such external financing, the Acquisition will not become unconditional and the Company will not enjoy the potential benefits from the Acquisition.

Under the Placing arrangement, the Placing Shares will be placed to independent placees who are third parties independent of the Company, the Vendor, and their respective connected persons. The terms of the Placing will be agreed between the Company and relevant placing agent and/or placees after arm's length negotiations and the Placing will be entered into on normal commercial terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The minimum placing price of HK\$0.291 per Placing Share is equivalent to the Issue Price. The minimum placing price represents a discount of approximately 55.9% to the closing Share price on the Latest Practicable Date. As stated in the section headed “5.2.2 Issue price of the Consideration Shares” above, given that there is no improvement in the operations of the Group as evidenced by the continue deterioration in the first quarter 2010 results, the substantial increase in Share price might reflect the market expectation on the prospects of the Target Group, which may or may not be sustainable in the future. Furthermore, as stated in the Letter from the Board, the placing price shall be determined by agreement between the Company and the relevant placing agent(s) and/or placees after arm’s length negotiations at the time of Placing and will be subject to a number of considerations, including prevailing market conditions, the prevailing market price of the Shares and investor demand for the Shares at the relevant time. As also stated in the Letter from the Board, the Board has considered other financing methods with less dilutive impacts are not practical in terms of size and procedures.

Having considered that (i) the obtaining of external financing and the maintaining of 25% minimum public float of the Company are two of the conditions precedent to the Acquisition; (ii) the Placing Shares will be placed to independent placees; (iii) the placing price will be determined after arm’s length negotiations at the time of Placing; (iv) the Placing will improve the financial position of the Group; (v) other financing methods with less dilutive impacts are not practical in terms of size and procedures; and (vi) the level of dilution from the Placing is considered to be acceptable as set out in the section headed “7. Potential dilution effect on the shareholdings of the public Shareholders” above, we consider that the Placing, including the minimum placing price, is fair and reasonable, on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

IV. The issue of Remuneration Shares

Somerley is the financial adviser to the Company regarding the Acquisition and the Whitewash Waiver and the sponsor to the new listing application of the Company. Pursuant to an engagement letter dated 25 May 2009 entered into between the Company and Somerley (the “Engagement Letter”), and having considered the then financial position of the Company and to minimize further cash outlays, it was agreed between the Company and Somerley that part of professional fees amounting to a total of US\$175,000 charged by Somerley on project basis in respect of the provision of financial advisory services to the Company would be settled by the issue of Remuneration Shares to it. The professional fees were agreed after arm’s length negotiations and by reference to the market rate for similar types of advisory services. A total of 838,581 Remuneration Shares were issued to Somerley as at the Latest Practicable Date. Out of the 838,581 Remuneration Shares issued, 388,000 Remuneration Shares were issued at an issue price of HK\$0.2 each (a rounded-up price by reference to the 30-day VWAP prior to the date of the engagement) to settle an amount of US\$10,000 due to Somerley (details of which were set out in the Company’s announcement dated 3 June 2009). A further 450,581 Remuneration Shares were issued at an issue price of HK\$0.258 each (equivalent to the 30-day VWAP prior to the release of the Company’s announcement dated 20 November 2009) to settle an amount of US\$15,000 due to Somerley (details of which are set out in the Company’s announcement dated 20 November 2009). An additional amount of US\$50,000 will be settled by the issue of the Remuneration Shares following the release of the Circular approving, among other things, the Agreement and the Whitewash Waiver at an issue price equivalent to the 30-day VWAP prior to the release of the Circular. This represents the same underlying basis used for determining the issue price for the first and second batches of Remuneration Shares as set out above. For illustration purpose only, based on an issue price of HK\$0.717 each and exchange rate of US\$1 to HK\$7.77, it is estimated that 541,841 Remuneration Shares will be issued in this regard.

Further Remuneration Shares will be issued at HK\$0.291 each (which is equal to the issue price for the Consideration Shares) to Somerley to settle the success fee of US\$100,000 (payable on the commencement of trading of the Consideration Shares). It is estimated that 2,663,230 Remuneration Shares will be issued (subject to change in exchange rate) in this regard. Such final batch of Remuneration Shares will be allotted and issued under a specific mandate to be sought by the Company at the EGM. Application will be/has been (as the case may be) made to the Listing Division of the Stock Exchange in respect of such listing of, and permission to deal in, the Remuneration Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our view

The terms of engagement of Somerley as a financial adviser to the Company regarding the Acquisition and the Whitewash Waiver and the sponsor to the new listing application of the Company, including the amount of the final batch of Remuneration Shares and the issue price, was arrived at after arm's length negotiations between the Company and Somerley and on normal commercial terms.

Given the issue price for the final batch of Remuneration Shares of HK\$0.291 per Share is set as the same as the issue price for the Consideration Shares (details of our analysis are set out under the sections headed "5.2.2 Issue price of the Consideration Shares"), we concur with the view of the Directors that the issue price of the final batch of Remuneration Shares is fair and reasonable.

Accordingly, we concur with the view of the Directors that the issue of final batch of Remuneration Shares, which was arrived at after arm's length negotiations between the Company and Somerley and on normal commercial terms, to be fair and reasonable.

RECOMMENDATION

Having considered the principal factors and reasons as set out above, we are in the opinion that the Acquisition, the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares are in the interests of the Company and the Shareholders as a whole and the respective terms of the Acquisition, the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares and the respective transactions contemplated thereunder are fair and reasonable. Therefore, we would advise the Independent Board Committee to recommend the Independent Shareholders that they should vote in favour of the relevant resolutions relating to the Acquisition, the Whitewash Waiver, the Placing and the issue of final batch of Remuneration Shares and the respective transactions contemplated thereunder at the EGM.

Yours faithfully

For and on behalf of

Access Capital Limited

Ambrose Lam Jimmy Chung

Principal Director Principal Director

RISK FACTORS

You should carefully consider all of the information in this circular, including the risks and uncertainties described below, before making the voting decision at the EGM. You should pay particular attention to the fact that the business of the Target Group is located almost exclusively in the PRC and the Target Group is governed by a legal and regulatory environment that differs in certain respects from that which prevails in other countries. The business, financial condition or results of operations of the Enlarged Group could be materially and adversely affected by any of the risks described below.

RISKS RELATING TO THE ACQUISITION

The Acquisition constitutes an investment in new business sector and may pose significant challenges to the Group’s administrative, financial and operational resources.

The Acquisition constitutes an investment in the new business sector of manufacturing of hydraulic roof supports designed for underground coal mining, which the Company has not previously had exposure to or experience in. The new business, coupled with the regulatory environment, may pose significant challenges to the Group’s administrative, financial and operational resources. Since the Group does not have exposure to or experience in the new business, it is not in a position to assure the timing and amount of any return that may be generated from the new business, nor is it in a position to control the operational risks that could lead to a loss.

Completion of the Acquisition is subject to conditions precedent set out in the Agreement having been fulfilled and there is no assurance that all of the conditions precedent can be fulfilled.

Completion of the Acquisition is conditional upon fulfillment of the conditions precedent, details of which are set out in paragraph headed “Conditions precedent” in the “Letter from the Board” of this circular.

Fulfillment of certain conditions precedent is not within control of the parties involved in the Acquisition as they involve decisions of third parties. Such conditions precedent include, among other things, obtaining approval from the Independent Shareholders at the EGM, obtaining approval from the Listing Division of the Stock Exchange for the new listing application of the Company and for the listing of, and permission to deal in, the Consideration Shares, and the granting of Whitewash Waiver by the Executive. In particular, if the Company is unable to comply with the requirements of Rules 11.23(2)(b), 11.23(7) and 11.23(8) of the GEM Listing Rules at the time of completion of the Acquisition, the Listing Division of the Stock Exchange may not grant approval for the new listing application of the Company. In such case, the Acquisition would not become unconditional. Since fulfillment of such conditions precedent is beyond the control of the parties involved in the Acquisition, there is no assurance that the Acquisition will be completed as intended.

RISK FACTORS

There will be substantial dilution of the shareholding percentages of the existing Shareholders in the Company immediately following completion of the Acquisition.

Pursuant to the Agreement, the Company will issue a total of 4,000 million Consideration Shares to the Vendor and not more than 1,200 million Placing Shares to placees. The Consideration Shares and the maximum of 1,200 million Placing Shares represent approximately 71.38% and 21.41% of the enlarged issued share capital of the Company after allotment and issue of the Consideration Shares to the Vendor, the Placing Shares and the Remuneration Shares but before full conversion of all outstanding convertible bonds of the Company. Consequently, the shareholding percentages of the existing Shareholders in the Company would be substantially diluted. Further details are set out in the sub-section headed “Change of shareholding structure of the Company” in the “Letter from the Board” of this circular. Any improvement in the value of the Shares resulting from the Acquisition may not necessarily be reflected in their market price and may not offset the dilution effect to the existing Shareholders.

The shareholding percentages of existing Shareholders in the Company will be further diluted if the Company issues additional Shares and/or equity securities in the future.

To facilitate expansion of the Company’s business, the Company may contemplate further fund raising activities in the future by offering and issuing additional Shares and/or equity securities in the future. As set out in the “Letter from the Board” of this circular, the Company entered into a memorandum of understanding regarding the potential acquisition of the Russian Mine Project. The consideration for which will be provided by the Company through the issue of either shares or convertible securities. Furthermore, the Purchaser entered into the Key Target Sale and Purchase Agreement with the Sellers with respect to a potential acquisition of the entire issued share capital of Key Target. The consideration for which will be settled in full by the issue of convertible bonds by the Company to the Sellers. Details of these possible acquisitions are set out in the “Letter from the Board” of this circular. As set out in the “Letter from the Board” of this circular, as at the Latest Practicable Date, the Board considers it is unlikely for the above-mentioned potential acquisitions to proceed to completion. The Company will make reference to, among other things, capital market conditions at that time to determine the issue price for such fund raising activities. Although the Directors will endeavour to obtain the best possible issue price for the Shares and/or equity securities in the interests of the Shareholders, there is no assurance that the issue price will be higher than the net tangible asset book value per Share. If the Company issues additional Shares and/or equity securities in the future at a discounted price to the net tangible asset book value per Share, Shareholders may experience further dilution in the net tangible asset book value per Share of their Shares.

RISK FACTORS

The Enlarged Group may be involved in legal disputes and/or litigation with IMM in relation to the RFO and the RFR.

On 16 May 2006, each of Mr. Li Rubo, Williams Realty Co, LLC and Mr. Williams (collectively, “Subscribers”) entered into a consultant subscription agreement (collectively, “Consultant Subscription Agreements”) with IMM. The Consultant Subscription Agreements, which are governed by New York law, established, inter alia, certain obligations on the part of the Subscribers during the “Restricted Period”, being a period defined in the Consultant Subscription Agreements (as amended by a letter agreement dated 4 December 2009 entered into between, among others, the Subscribers and IMM) as five years from the date of the Consultant Subscription Agreements, i.e. starting from 16 May 2006 and up to 16 May 2011. The Consultant Subscription Agreements obligated each of the Subscribers during the Restricted Period to take all actions necessary or desirable to, and to cause MML, to provide IMM with a right of first offer (“RFO”) and a right of first refusal (“RFR”) with respect to certain “Designated MML Investments”, which are defined in the Consultant Subscription Agreements as “the Zhengzhou-Siwei, Baoji-Siwei and Beijing-Siwei businesses and their subsidiaries and corporate affiliates, together with any expansion thereof or change thereto”.

While the Consultant Subscription Agreements do not specify a time frame within which a RFO notice (“RFO Notice”) specifying the price and other terms and conditions must be provided by MML to IMM, IMM was allowed 90 days after the delivery of RFO Notice by the Subscriber(s) to decide whether IMM shall accept the RFO. If IMM declines to exercise the RFO within such 90-day period, MML may offer such opportunity to a third party within the following six-month period. If the negotiation between MML and a third party results in a binding offer from such third party, the Subscriber(s) shall give notice (“RFR Notice”) to IMM setting out the proposed commercial terms between the Subscriber(s) and such third party. Within 10 days of receipt of an RFR Notice from the Subscribers, IMM may give notice (“RFR Acceptance Notice”) to the Subscriber(s) which shall contain commercial terms of at least 20% higher than those set out in the RFR Notice. Upon delivery of the RFR Acceptance Notice, the Subscriber(s) and MML shall enter in to good faith negotiations with a view to enter into definitive agreements in accordance with the terms set out in the RFR Acceptance Notice.

Completion of the Agreement was conditional upon satisfaction of various conditions, including the obtaining by MML of all consents required for implementation or completion of the Agreement. In order to satisfy such condition with respect to IMM’s RFO and RFR concerning Zhengzhou Siwei, on 4 December 2009, Mr. Li Rubo and Mr. Williams, on behalf of the Subscribers as a whole, delivered an RFO Notice dated 3 December 2009 to IMM specifying that an offer had been received for Zhengzhou Siwei. The legal advisers to the Company as to New York law, Wilmer Cutler Pickering Hale and Dorr LLP (“WilmerHale”), advised that although the RFO Notice was delivered after execution of the Agreement, the condition that all consents required for implementation or completion be obtained before the Agreement could be completed signified that the late RFO Notice did not constitute a breach of the Consultant Subscription Agreements, and accordingly the late delivery of the RFO Notice did not constitute a breach of the Consultant Subscription Agreements.

RISK FACTORS

IMM responded on 31 March 2010, which is more than 90 days after delivery of the RFO Notice, in which IMM expressly waived both its RFO and RFR rights with respect to the offer for Zhengzhou Siwei as set out in the said RFO Notice dated 3 December 2009, provided that the waiver shall be null and void and the said RFO and RFR shall remain in full force and effect if (i) the Acquisition does not close by 30 June 2010, (ii) the equity valuation of the Target and the Company as contemplated under the Acquisition and related transactions shall be less than US\$150 million and US\$15 million, on a fully diluted basis, respectively; or (iii) all amounts owed to TJCC Holdings Ltd, IMM's parent company, the Target are not repaid in full prior to or concurrent with the closing of the Acquisition and related transactions.

WilmerHale advised that, as IMM did not reply until after the 90-day period as specified under the Consultant Subscription Agreements had expired, IMM has forfeited its RFO right and therefore RFR rights with respect to Zhengzhou Siwei, and IMM no longer has continuing rights (including RFO and RFR rights) with respect to Zhengzhou Siwei. As a consequence of the failure of IMM to act upon its RFO notice within the contractual 90-day period, IMM forfeited its right to an RFR notice. WilmerHale is therefore of the opinion that the Subscribers have complied with all relevant procedural requirements relating to compliance with IMM's RFR and RFO rights and IMM no longer has continuing rights (including RFO and RFR rights) with respect to Zhengzhou Siwei as one of the Designated MML Investments and no legal challenge by IMM with respect thereto would be upheld.

Based on the above, the Directors of the Company consider that, none of conditions (i), (ii) and (iii) set out in IMM's reply dated 31 March 2010 remain in effect.

As the Acquisition was covered in the RFO Notice delivered to IMM on 4 December 2009, WilmerHale advised that the Subscribers are not obligated to deliver a fresh RFO Notice or RFR Notice to IMM with respect to the Acquisition. Furthermore, as the Acquisition was covered in the said RFO Notice and IMM forfeited its RFO rights and therefore its RFR rights with respect to the Zhengzhou Siwei, the Subscribers are not obligated to provide IMM, or to cause ERA to provide IMM, with any future RFR Notice or RFO Notice during the Restricted Period after completion of the Acquisition.

RISK FACTORS

WilmerHale also noted that, IMM has previously been notified that MML disposed of its interests in Baoji-Siwei, being one of the other two Designated MML Investments, and MML did not have an equity interest in Beijing Siwei, being the other Designated MML Investments. As such, those two Designated MML investments no longer exist and IMM has no continuing rights with respect to either of them. While the Restricted Period with respect to the Designated MML Investments remains in effect until 16 May 2011, it no longer has any effect because MML has complied with the RFO/RFR procedures specified in the Consultant Subscription Agreements or equivalents thereto satisfactory to IMM to notify IMM of its rights with respect to the disposition of the Designated MML Investments and IMM chose not to exercise its rights under the Consultant Subscription Agreements as amended. WilmerHale is therefore of the opinion that the procedural requirements with respect to the disposition by MML of its interests in the Designated MML Investments were fulfilled by MML and IMM no longer has continuing rights with respect to the Designated MML Investments, and that the Subscribers have not breached any of their obligations under the Consultant Subscription Agreements.

The above-mentioned legal opinion from WilmerHale, the legal advisers to the Company as to New York law, has not been communicated to IMM and/or its legal counsel. Accordingly, there is no assurance that IMM and/or its legal counsel would not dispute with or object to the above-mentioned legal opinion from WilmerHale in relation to the RFO and RFR. The Directors confirm that the Company and the Target Group are not parties to the Consultant Subscription Agreements nor the above private arrangements between the Subscribers and IMM. Accordingly, the Directors are of the view that there is no impact on the Company and the Target Group. Also, the Directors believe, based on the advice of WilmerHale, that the Acquisition is no longer subject to any consents from IMM and IMM no longer has continuing rights (including RFO and RFR rights) with respect to Zhengzhou Siwei. Notwithstanding the above, there is no assurance that the Enlarged Group will not become involved in any legal disputes and/or litigation with IMM in relation to the RFO and the RFR. Any legal actions initiated by IMM against the Enlarged Group may result in substantial legal costs, judgments, settlements, diversion of resources and management attention, or other results adverse to the Enlarged Group, which could materially and adversely affect its reputation, corporate or directors' image, Share price, business, financial conditions and results of operations.

If IMM initiates a claim against the Vendor and/or the Enlarged Group in relation to the RFO and RFR, and IMM is successful in its claim and is awarded injunctive relief in its favour before Completion of the Acquisition, the Acquisition may not be able to complete on the terms of the Agreement, depending on the outcome of the lawsuit. On the other hand, if IMM is successful in its claim after Completion of the Acquisition, the Company cannot rule out the possibility that a court would order the Company to transfer the Target Group to the Vendor or IMM as it deems appropriate. Alternatively, instead of ordering a transfer of the Target Group to the Vendor and/or IMM, the court may also award damages to IMM, which could be significant and could be required to be borne, in whole or in part, by the Target Group and therefore the Enlarged Group, and results in material adverse effect on the financial condition and results of operation of the Enlarged Group.

RISK FACTORS

In either case, each of the Vendor, Mr. Williams and Mr. Li Rubo has agreed to indemnify the Enlarged Group against all damages, losses, expenses or liabilities which may arise as a result of, relating to or in connection with the Acquisition. However, there is no assurance that the Vendor, Mr. Williams and Mr. Li Rubo, will indemnify the Enlarged Group against any damages, losses, expenses or liabilities which may arise as a result of, relating to or in connection with the Acquisition as agreed. In the event of the failure by any of them to indemnify the Enlarged Group's damages, losses expenses, or liabilities which may arise as a result of relating to or in connection with the Acquisition, the Company may be required to incur additional resources to take out legal proceedings to enforce such indemnity.

See also "History and background of the Target Group - Private arrangements among Mr. Li Rubo, Mr. Williams and IMM".

RISKS RELATING TO THE ENLARGED GROUP

Any decline in the ability of the operating subsidiaries of the Target Group, which will become the Company's principal operating subsidiaries immediately following Completion, to pay dividends to the Company would materially and adversely affect the Company's cash flow.

The Company is a holding company with its operations and business significantly carried out by its operating subsidiaries. Immediately following Completion, the Target Group will become the principal operating subsidiaries of the Company and contribute substantial amount of earnings, cash flows and assets of the Company. If the earnings from the Target Group drop, earnings and cash flow of the Company would be materially and adversely affected. Moreover, the Company will rely on dividends paid by the Target Group for its future cash needs including payment of dividends, other cash distributions and expenses, and repayment of debt. As Zhengzhou Siwei is the major operating subsidiary of the Target Group, its dividend payment to members of the Enlarged Group will significantly affect the earnings and cash flows of the Company. Regulations in the PRC currently permit payment of dividends by Zhengzhou Siwei only out of distributable profits as determined in accordance with the generally accepted accounting principles of the PRC. In addition, pursuant to applicable PRC laws and regulations, Zhengzhou Siwei is required to maintain a statutory reserve fund, and to set aside at least 10% of its after-tax profit based on the generally accepted accounting principles of the PRC each year for its statutory reserve until the amount of such reserve reaches 50% of its registered capital. The statutory reserve is not distributable as dividends. Contributions to such reserves are made from net profit after taxation of Zhengzhou Siwei. The ability of Zhengzhou Siwei to pay dividends or make other distributions will also be affected by its debt or other borrowings in the future. If Zhengzhou Siwei cannot pay dividends or has to restrict its dividend payment due to government policy and regulations, or because they cannot generate the requisite cash flow, the Company may not be able to pay dividends or expenses, or repay debt. This may result in a material adverse effect on the business, prospects, financial condition and results of operations of the Company.

RISK FACTORS

The Enlarged Group may not be able to obtain additional funding or generate sufficient cash from its operations to fund capital requirements.

Additional funding from external sources and internally generated cash may be required by the Enlarged Group to finance the operations and development of its business. Any expansion involving the establishment of or improvement in manufacturing equipment and facilities is likely to require a significant amount of capital expenditure. As set out in the section headed “Business of the Target Group” of this circular, the total capital expenditure related to the production facilities relocation and consolidation of approximately RMB395.3 million is expected to be financed by a combination of placement proceeds of approximately HK\$136 million (equivalent to approximately RMB120 million), as detailed in the sub-section headed “Placing” in the “Letter from the Board” of this circular, and the Target Group’s bank borrowings and internal resources. As at 30 April 2010, bank borrowings have been raised by the Target Group of which approximately RMB44 million was used for this purpose. Save for this, the Target Group has not yet agreed with the bank(s) for further borrowing amount. There can be no assurance that external source of funds or cash generated internally will be sufficient or available to meet the financial needs of the Enlarged Group. There is no guarantee that the Enlarged Group will be able to obtain additional external funding on terms acceptable to it or at an acceptable cost or at all. If the Enlarged Group cannot secure adequate funding at an acceptable cost, or any current banking facilities granted to the Enlarged Group are terminated or reduced, its ability to expand its business and to finance its operations may be restricted or limited.

The Vendor itself will have substantial influence over the Enlarged Group and its interests may be different from those of other Shareholders.

As set out in the sub-section headed “Change of shareholding structure of the Company” in the “Letter from the Board” of this circular, immediately upon Completion, the Vendor itself will be interested in approximately 71.38% of the enlarged issued share capital of the Company after allotment and issue of the Consideration Shares, the maximum of 1,200 million Placing Shares and the Remuneration Shares but before full conversion of all outstanding convertible bonds of the Company. According to the Company’s Articles, the Vendor will, by virtue of their ownership interests in the Company, be able to exercise substantial influence over the business of the Enlarged Group by directly or indirectly voting on significant matters at shareholders meetings of the Enlarged Group. These matters include, among other things, matters relating to the election of Directors, dividend payments and other distributions, acquisition of or merger with another company and other significant corporate actions which are subject to approval by Shareholders. The Vendor may vote its Shares in a way not in line with interests of other Shareholders, and/or those of other holders of the Company’s securities.

RISK FACTORS

The businesses and operations of the Enlarged Group may be materially disrupted or adversely affected due to force majeure and other causes.

The Enlarged Group's manufacturing facilities and certain finished products are vulnerable to interruptions by war, riot, fire, epidemic, power shortage and other non-controlled environmental events, including adverse weather conditions and natural disasters such as snowstorms, typhoons, and floods, the risks of which the Enlarged Group may not cover through insurance. An interruption in production or service capabilities at its manufacturing facilities, even for a short duration, could lead to decrease in production capacity and delay in deliveries of its products. This would reduce the sales and earnings for the affected period. Any losses due to business interruptions could have a material adverse effect on the Enlarged Group's prospects, profitability and operation results.

The business of the Enlarged Group depends substantially on the continuing efforts of its senior management and executive officers and its ability to attract and retain qualified management team.

Future success of the Enlarged Group depends largely on the leadership and capabilities of its key management team which possesses solid experience in the PRC hydraulic roof supports designed for underground coal mining market. Any unanticipated departure of its key management personnel or its senior management team as disclosed in the section headed "Directors and senior management of the Enlarged Group" of this circular may have a material adverse impact on the Enlarged Group's business and prospects. Such unanticipated departure of any key members of the Enlarged Group without immediate and adequate replacement or the inability to recruit further competent personnel for its future development could have a material adverse impact on the Enlarged Group's business. The operating results and prospects of the Enlarged Group may thus be materially and adversely affected.

RISK FACTORS

Furthermore, there can be no assurance that the former key personnel will not misappropriate the confidential information of the Enlarged Group or will not compete with the Enlarged Group in the future. Also, the Enlarged Group relies on the experience and technical know-how of its production personnel. There is no assurance that the production personnel will continue to be employed by the Enlarged Group. Normally the Enlarged Group will take a few months to train new staff to acquire the special skills required for operating certain equipment, and such skilled personnel may not easily be replaced. The Enlarged Group may have to incur more costs on providing more competitive remuneration packages to recruit and retain adequate production personnel to sustain its business operations, which could affect its business operations, results and prospects.

Failure to comply with PRC regulations relating to the registration of overseas direct investment by PRC shareholder of the Company may subject the Company to sanctions.

Under the relevant PRC laws, PRC citizens who make direct overseas investment or engage in the issue and trading of marketable securities and derivative products in overseas shall make registration in accordance with the requirements of the SAFE. During the Track Record Period and as at the Latest Practicable Date, Madam Liu Jie, a PRC citizen, held 7,742,284 Shares in the Company (representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date) and no registration of her overseas direct investment in the Company has been made in accordance with the requirements of the SAFE. As advised by the PRC lawyers to the Company, pursuant to relevant PRC regulations, PRC individuals shall undertake registration in light of relevant provisions of SAFE when conducting overseas direct investment. However, as informed by the PRC lawyers to the Company, such provisions have not yet been promulgated by SAFE. As a result, such registration is not practical by now. Madam Liu Jie may be fined for an amount less than RMB50,000 for not having made such registration procedures. As confirmed by the PRC legal advisers to the Company, as Madam Liu Jie will indirectly hold the relevant interest in Zhengzhou Siwei via the Company and the Target upon Completion, with reference to the relevant regulations, in practice, it cannot exclude the possibility that after Completion the competent authority may forbid Zhengzhou Siwei to make the payments of (a) dividends, (b) proceeds arising from the equity transfer, the capital reduction, the advanced recovery of investment and liquidation, and (c) the principal and interest of shareholders' loans to the Target in accordance with the relevant PRC laws and regulations. According to the PRC legal advisers to the Company, given the size of Madam Liu Jie's shareholding, the possibility to impose penalties on Zhengzhou Siwei by the competent authority is minimal. However, where the competent authority enforces the above penalty, the business, operation and financial results of the Company may therefore be affected materially and adversely.

RISK FACTORS

In this connection, Madam Liu Jie (who will be a connected person of the Company upon Completion by reason of Mr. Williams, her spouse, being expected to be appointed an executive Director upon Completion) has given the Company an irrevocable undertaking to transfer her interest in the Company to Mr. Williams, a non-PRC resident, as soon as practicable as permitted under the Takeovers Code and/or the GEM Listing Rules. Under the Takeovers Code, the Whitewash Waiver will not be granted or if granted will be invalidated if, without the prior consent of the Executive, acquisition or disposals of voting rights of the Company are made by MML or any person acting in concert with it, including Madam Liu Jie, being the spouse of Mr. Williams who is the director of the Vendor, in the period between the date of the Announcement and the Completion. In order not to breach the above requirement of the Takeovers Code thus adversely affect the application of the Whitewash Waiver, it is proposed that the transfer of Shares in the Company from Madam Liu Jie to Mr. Williams will take place after the Completion when such transfer will no longer affect the validity of the Whitewash Waiver. Moreover, Mr. Williams will be appointed as an executive Director after Completion, and his spouse Madam Liu Jie shall comply with the GEM Listing Rules requirement regarding securities transactions by directors in respect of the transfer of Madam Liu Jie's interest in the Company to him.

There is no assurance that such share transfer will be completed in a timely manner, if at all, or that the members of the Enlarged Group will not be subject to penalties imposed by PRC government authorities. Any delay in, or failure to complete, such share transfer could have a material adverse effect on the business of the Enlarged Group.

RISKS RELATING TO THE TARGET GROUP'S BUSINESS AND THE INDUSTRIES IN WHICH THE TARGET GROUP OPERATE

Dependence on the level of coal exploration and production activities in the PRC and reliance on the PRC market.

Revenue generated from the sale of coal mining equipment is dependent on the exploration and production capital expenditures of coal producers, which in turn relies on current prices of and future trends in, PRC coal prices. Therefore, the coal price fluctuations would have an impact on the level of coal exploration and production activities which would affect future demand and prices of the coal mining equipment manufactured by the Target Group. Accordingly, sales and operating results of the Target Group may be materially and adversely affected as a result of any adverse event on the PRC coal industry.

RISK FACTORS

In addition, Zhengzhou Siwei focused its business on the PRC market during the Track Record Period, and the Directors anticipate that the sales of Zhengzhou Siwei will continue to focus primarily on the PRC market in the near future. Therefore, Zhengzhou Siwei is exposed to changes in the economic, political and social conditions, legal and regulatory requirements, taxation treatment, and coal mining related government policies in the PRC, and also changes in the domestic demands for its products. There is no assurance that such changes will not have material and adverse impact on the operating results of the Target Group.

The recent global economic crisis may materially and adversely affect the business, financial condition and results of the Target Group.

The recent global economic crisis results in a general slowing of economic growth in the world including the PRC. Although the PRC government has implemented stimulus plans and other measures to stabilise and promote the economy, there is no assurance that the PRC economy will continue to grow or the PRC government will continue to implement these plans and measures. If there is economic slowdown in the PRC, this will diminish demand for electricity and coal as coal is the major resources in the PRC for generating electricity. A drop in demand for coal could result in decreased demand for equipment made by the Target Group. If the global economic crisis continues and/or the coal industry in the PRC deteriorates, the business, financial condition, results and prospects of the Target Group may be materially and adversely affected. Liquidity in financial markets may become low and volatility in credit and equity markets may become high as a result of ongoing financial crisis. These could pose a risk to the Target Group by limiting the financing options, increasing finance costs or causing the financing to be more costly or subject to less favorable terms. These, in turn, may materially and adversely affect liquidity, operating results, financial condition, prospects and future expansion plans of the Target Group.

Future changes in laws, regulations or policies in the PRC may materially and adversely affect the business operations of the Target Group.

Business operations of the Target Group are subject to compliance with applicable environmental protection, labour, production safety and other regulations in the PRC. Any change in the scope or application of these laws, regulations or administrative interpretation may limit the production capacity or increase production and operating costs of the Target Group. Any failure to comply with these laws and regulations may result in fines and penalties. Moreover, the PRC government may impose more stringent requirements on the Target Group.

RISK FACTORS

It is the policy of the PRC government to encourage large-scaled coal enterprises to acquire and reconstruct small and medium-sized coal mines. The PRC government also encourages small and medium-sized coal mines with reliable resources reserves to jointly reconstruct. Usually, the larger the coal mining company is, the more highly mechanized than smaller coal mining companies. Accordingly, this policy expedites the mechanization, which leads to the increasing demand for the mining equipments. Small coal mines which are not laid out rationally, not in compliance with safety standards or environmental protection requirements or resource-wasting shall be further phased out. The directors of the Target Group believe that this policy is one of contributing factors for the historical growth of the Target Group during the Track Record Period as a result of increasing demand for hydraulic roof supports. However, there is no assurance that the Target Group can continue to benefit from this policy in the future. There may be a chance for the Target Group's customers to be consolidated into a bigger coal mine group which may cease the business with the Target Group. The PRC government has also adopted policies and measures that actively support non-carbon and renewable energy projects in recent years with a view to accelerating the development of renewable energy and increasing the percentage of energy consumption from renewable energy. These policies and measures could adversely affect the PRC coal industry which in turn may weaken the demand for products of the Target Group.

Accordingly, these may result in substantial additional costs for compliance purposes, and materially affect the business, operations, financial condition and results of the Target Group.

The preferential tax treatment on high and new technology enterprise the Target Group currently enjoys may be discontinued.

According to relevant PRC laws and regulations, the enterprise income tax on high and new technology enterprise which requires State emphasized support shall be levied at the reduced tax rate of 15%. In order to maintain its status as a high and new technology enterprise, an enterprise shall comply with certain conditions, including but not limited to (1) possessing independent intellectual property rights to the core technology of its primary products (services) by statutory way; (2) manufacturing products or providing services which belong to “areas of high and new technology strongly supported by the State (《國家重點支持的高新技術領域》)”; (3) academic background of staff; (4) level of research and development expenditures as compared to total revenue; and (5) level of revenue generated from high technology products/services as compared to the enterprise's total revenue. The valid period for the status as a high and new technology enterprise is 3 years. The enterprise is required to file re-examination applications three months prior to the expiration of the valid period of its current high and new technology enterprise qualification. The enterprise is allowed to apply for the preferential tax treatment if it passes the re-examination and obtains the updated high and new technology enterprise qualifications. If such approval is granted, the enterprise will be entitled to the reduced tax rates for certain period as approved by relevant tax authority.

RISK FACTORS

Zhengzhou Siwei is currently accredited as a high and new technology enterprise and such qualification will expire on 13 November 2011. As a high and new technology enterprise, Zhengzhou Siwei is entitled to the preferential income tax treatment of 15%. Zhengzhou Siwei shall apply for the preferential tax treatment with competent tax authority every year during the valid period of its high and new technology enterprise qualification. If the relevant approval is granted by the competent tax authority, Zhengzhou Siwei may enjoy the preferential tax treatment accordingly. The PRC legal advisers to the Company are of the opinion that according to the applicable PRC laws and regulations, if Zhengzhou Siwei continues to meet the statutory conditions and be accredited as a high and new technology enterprise by competent authorities, after completion of all statutory procedures required by competent authorities, there is no material legal impediment for Zhengzhou Siwei to continue enjoy the aforesaid preferential treatment. However, there is no assurance that Zhengzhou Siwei will continue to maintain the high and new technology enterprise qualification and be entitled to enjoy such preferential tax treatment. If Zhengzhou Siwei fails to be accredited as a high and new technology enterprise for such preferential tax treatment, or the PRC government changes its policies and/or such preferential tax treatment, this may result in adverse impact in operation results and financial condition of the Target Group.

The Target Group's operations are dependent on the availability of an adequate supply of, and the price of, raw materials.

During the Track Record Period, cost of raw materials represented the largest component of the cost of goods sold of the Target Group. For the three years ended 31 December 2007, 2008 and 2009, cost of raw materials represented approximately 92%, 93% and 89% of the cost of sales of Zhengzhou Siwei respectively. There can be no assurance that the Target Group will be able to obtain sufficient amounts of raw materials from its existing suppliers or from alternative sources at acceptable prices and quality in a timely manner, or at all. This could interrupt the manufacturing operations of the Target Group, and materially and adversely affecting the business and operating results of the Target Group. Details of the price fluctuations of raw materials during the Track Record Period are set out in the section headed "Financial Information of the Target Group" of this circular.

The Target Group does not currently engage in any hedging transaction to protect itself against fluctuations in the price of steel, which is the primary raw material used in the Target Group's manufacturing process. Although the Target Group adopts purchasing practices and pricing strategies to mitigate the risks of steel price fluctuation, there can be no assurance that the Target Group will be able to pass on any such increases to its customers entirely. Should there be a significant increase in the steel price and/or other cost of raw materials in the future and that the Target Group is not able to pass on the additional cost to its customers, the profit margin of the Target Group may be reduced and the operating results of the Target Group may be materially and adversely affected.

RISK FACTORS

The Target Group outsources the production of certain components and parts and certain of production process to local subcontractors, and any material disruption to the supply of products from subcontractors would materially and adversely affect the operating results of the Target Group.

The Target Group outsources the production of certain components and parts and certain of production process to local subcontractors depending on the specific production requirements of each product. Outsourcing the manufacturing of some of the Target Group's components and parts and certain of production process increases production capacity and some cases achieves greater cost efficiencies. However, the Target Group may have less control over the quality and delivery of these outsourced products and process. There can be no assurance that the subcontractors will supply the Target Group with components, parts and products sufficient to meet the Target Group's needs in a timely manner, and in accordance with the quality standards of the Target Group. Any material disruptions in the supply of components, parts and products from subcontractors could materially and adversely affect the production capabilities of the Target Group and its ability to meet the demand of its customers. Hence the business and operating results of the Target Group may be materially and adversely affected.

Drop of gross profit margin during the Track Record Period.

During the Track Record Period, Zhengzhou Siwei's gross profit margin was approximately 18.4%, 13.4% and 16.5% for the year ended 31 December 2007, 2008 and 2009 respectively. A number of factors will have impact on the sustainability of Zhengzhou Siwei's gross profit margins, including, among other things, the types of products produced, margin added for determining the selling prices, which in turn are affected by a combination of factors including, but not limited to, the relative bargaining power of the customers and suppliers, market demand and supply in respect of the products, raw materials and labour force. As many of these factors are beyond control of the customers, the suppliers and the Target Group, the selling price and manufacturing costs may vary even for similar product produced within the same period of time. There is no assurance that the Target Group will be able to achieve or maintain gross profit margin at a similar level in the future. A detailed discussion and analysis of the factors affecting Zhengzhou Siwei's results and financial condition is set out in the section headed "Financial Information of the Target Group" of this circular.

RISK FACTORS

The Target Group's outstanding trade receivables and the turnover days of the Target Group's trade receivables have been increasing during the Track Record Period.

The outstanding trade receivables (net of allowance for bad and doubtful debts) of Zhengzhou Siwei were approximately RMB161.6 million, RMB491.5 million and RMB839.6 million as at 31 December 2007, 2008 and 2009 respectively. The turnover days of Zhengzhou Siwei's trade receivables were 78 days, 120 days and 198 days in 2007, 2008 and 2009 respectively. The increase in Zhengzhou Siwei's outstanding trade receivables and receivables turnover days during the Track Record Period was mainly due to the overall business expansion, and the credit period extensions granted to some customers in light of challenging economic environment. Delays in collection of trade receivables from Zhengzhou Siwei's customers may adversely affect its cash flow position and its ability to meet its working capital requirements, and extended delay in payment by any major customer would have a material and adverse effect on the aging schedule and turnover days of Zhengzhou Siwei's trade receivables. After payment of deposit of the contract sum by Zhengzhou Siwei's customers upon signing of relevant sales contracts, the remaining balances, which vary from case to case, are due for payment either upon delivery, upon installation, or some combination of both, depending on customer needs and situation. Approximately 75%, 48%, and 50% of contracts signed in 2007, 2008, and 2009 respectively involved payment upon installation. However, as the customers install the mining machinery by stages and no information as to the completion of installation dates was supplied by the customers, this may impact on how Zhengzhou Siwei determines when it is entitled to take action to collect the outstanding receivables in respect of sales made under the above-mentioned credit term, and may affect Zhengzhou Siwei's ability to collect its trade receivables on a timely basis, which could materially and adversely affect its financial condition, liquidity and results of operations. Zhengzhou Siwei's customers' ability to pay may be impaired by a number of factors including, but not limited to, unfavourable market conditions and delays in the schedules at mining operations due to various reasons. There is no assurance that Zhengzhou Siwei's customers will make payments on a timely basis and that Zhengzhou Siwei will be able to efficiently manage the level of bad debt in relation to its trade receivables.

RISK FACTORS

Intense competition may reduce the profitability and market share of the Target Group.

The Target Group faces significant competition from both the domestic and overseas mining equipment manufacturers in the market in which it operates, and may face increasing competition from foreign manufactures of mining equipment which are trying to enter into the PRC market. Larger-scale domestic operators or foreign enterprises may be able to operate more efficiently attributable to a number of factors including the level of capital, cost of capital, government support, technology, brand recognition or relationship with customers. The keen competition may result in price reduction, lower profit margin and loss of market share. In the past, the Target Group competed on a number of aspects, including performance, reliability and pricing of its products to maintain its market position and to differentiate itself from competitors. However, there is no assurance that the Target Group can continue to do so. Any of such failure may reduce the sales, profitability and market share of the Target Group.

The Target Group sells its products primarily with the assistance of Zhengzhou Siwei Mechanical and Electrical Sales Co., Ltd, and any material disruption to the operations of it or its relationship with the Target Group would materially, and adversely affect the operating results of the Target Group.

The Target Group has been selling its products primarily with the assistance of Zhengzhou Siwei Mechanical and Electrical Sales Co., Ltd (鄭州四維機電設備銷售有限公司, “Zhengzhou Siwei M&E Sales”) since July 2007 for providing services including product promotion, market intelligence gathering, acting as liaison between the Target Group and customers and aftermarket services and is supervised by the Target Group. 100% of the Target Group’s sales were conducted with the assistance of Zhengzhou Siwei M&E Sales from July to December 2007, for the year ended 31 December 2008 and the year ended 31 December 2009. The Target Group entered into an agreement with Zhengzhou Siwei M&E Sales with a one year term, renewable upon mutual agreement. The agreement can be terminated by either party by giving written notice in advance. However, the Target Group does not have direct control over the operations of Zhengzhou Siwei M&E Sales and whether Zhengzhou Siwei M&E Sales will continue to provide services to the Target Group. Hence, the business and operating results of the Target Group may be materially and adversely affected if these happen.

The Target Group has limited insurance coverage for its assets or business interruption, and may incur damages which could result in material adverse effect on its business.

The Target Group has limited insurance coverage for its assets and may incur damages resulting from a number of events, including, among other things, severe weather condition, industrial accident, fire, earthquake, war, flooding and power outage. The total value of assets not covered by insurance, as of 31 December 2009, was approximately RMB66.3 million. Should the Target Group incur substantial losses or liabilities and its insurance coverage were unavailable or inadequate to cover such losses and liabilities, or if its business operations are interrupted for more than a short period of time, it could incur cost and losses that would materially and adversely affect its operating results.

RISK FACTORS

The Target Group may be liable for damages based on product liability and warranty claims in the event that the failure, use or misuse of its products results, or is alleged to result, in physical injuries, property damages and mining accidents. As advised by the PRC legal advisers to the Company, it is not a mandatory requirement to maintain product liability insurance under PRC laws. A successful product liability claim brought against a member of the Target Group or a requirement to participate in any product recall may materially and adversely affect the business and financial results of the Target Group. Furthermore, the Target Group may have to allocate significant resources and time to defend legal proceedings with respect to such claims, which in turn may adversely affect the Target Group's reputation and operating results.

Certain properties of the Target Group in the PRC are subject to legal irregularities.

Certain properties of the Target Group in the PRC are subject to legal irregularities.

Zhengzhou Siwei constructed a two-storey office building for training purpose on a land parcel located at 7 Jinsuo Road, Zhengzhou with a gross floor area of 536 sq.m., the construction cost of which amounted to approximately RMB175,000. Zhengzhou Siwei has not obtained the Construction Planning Permit for the construction of such office building, has not conducted acceptance examination on its completion, and has not obtained the Building Ownership Certificate. As advised by the PRC legal advisers to the Company, according to the relevant PRC laws, constructions without construction planning permit and failure to carry out rectifying measures to offset the consequence as a result of such constructions must be dismantled in due course. For constructions which are unable to be dismantled, the relevant properties or illegal income arising therefrom must be confiscated. Further, a fine below 10% of the construction cost may be imposed. In addition, as stipulated under the PRC laws, Zhengzhou Siwei may be subject to a fine of 2% to 4% of the consideration of the construction contract for constructed units delivered without passing the acceptance examination. Accordingly, the Target Group estimates the maximum monetary liabilities as result of the above-mentioned non-compliance would be approximately RMB24,000 pursuant to the principle of calculation advised by the PRC legal advisers to the Company. If Zhengzhou Siwei is required to cease occupation and usage of the above office building, it will have to relocate to other location. Thus, if the building is ordered to be dismantled or confiscated, or a penalty is imposed on Zhengzhou Siwei, the operation and results of the Target Group may be materially and adversely affected.

RISK FACTORS

Zhengzhou Siwei occupies and uses a land parcel with a site area of approximately 5,083.4 sq.m. in Guangwu Town, Xinyang City and has constructed four buildings thereon with a floor area of 3,526.4 sq.m., 3,501.5 sq.m., 1,175.0 sq.m. and 32.0 sq.m., respectively, for the purpose of an electroplating workshop, the relevant office, dining hall and guard room, respectively. Zhengzhou Siwei has not obtained the relevant certificates and permits for occupying and using such lands, and constructing relevant buildings on such lands. The land parcel mentioned above was designated for agricultural use, and Xinyang Municipal People's Government and Land and Resources Bureau of Xinyang had applied for the conversion of such land use to state-owned construction purpose. Recently, the above conversion has been completed and Zhengzhou Siwei will apply for the state-owned land use rights and building ownership certificates for the above land and buildings in accordance with the relevant PRC laws and regulations. The Target Group estimates that Zhengzhou Siwei will obtain the relevant land use rights and building ownership certificates by 31 August 2010 and 31 May 2011 respectively. The relevant authorities have issued confirmation letters to confirm that the construction of the buildings on the above-mentioned land parcel has complied with the overall planning of Guangwu. The relevant authorities have also permitted Zhengzhou Siwei to undergo construction and process construction permit at the same time, re-apply construction permit certificate until relevant procedures are completed, and meanwhile, Zhengzhou Siwei may use the relevant properties to undergo manufacturing and operation as usual. The PRC legal advisers to the Company confirmed that the possibility to impose penalties by the relevant authorities on Zhengzhou Siwei due to Zhengzhou Siwei using the lands and buildings before obtaining the relevant certificates is minimal. However, according to the relevant PRC laws, any unauthorised occupation of land is subject to the return of land under order of the competent land authority of the people's government on or above the county level. For those which are in breach of the overall land use planning and changed the land use purpose from agricultural use to construction without permit, the competent land authority may impose orders to demolish the newly-built structures and other facilities on the unlawfully occupied land within a prescribed period, and rehabilitate the land to its original status. For those which are in compliance with the overall land use planning, the competent land authority may forfeit the newly-built structures and other facilities on the unlawfully occupied land and impose fines of below RMB30 per square meter of the unlawfully occupied land. Constructions without construction planning permit and failure to carry out rectifying measures to offset the consequence as a result of such constructions must be dismantled in due course. For constructions which are unable to be dismantled, the relevant properties or illegal income arising therefrom must be confiscated. Further, a fine below 10% of the construction cost may be imposed. Moreover, Zhengzhou Siwei may be required to stop the construction and be subject to a fine of 1% to 2% of the consideration of the construction contract due to failure of obtaining the construction permit. In addition, as stipulated under the PRC laws, Zhengzhou Siwei may be subject to a fine of 2% to 4% of the consideration of the construction contract for constructed units delivered without passing the acceptance examination. Accordingly, the Target Group estimates the maximum monetary liabilities as result of the abovementioned non-compliance would be approximately RMB1,749,000 pursuant to the principle of calculation advised by the PRC legal advisers to the Company. Therefore, if any punishment is imposed on Zhengzhou Siwei as a result of the construction, occupation and usage of the above-mentioned land and buildings, the operation and results of the Target Group may be materially and adversely affected.

RISK FACTORS

In addition, Zhengzhou Siwei leased two parcels of state-owned land at Yinping Road South and Xinglongpu Road for manufacturing and storage purposes. Since these two parcels of land are classified as allocated land and the leasing by the lessors has not been approved by the relevant land authorities, the lessors are not authorised to lease the land use rights to Zhengzhou Siwei. As a result, Zhengzhou Siwei is now relocating the such manufacturing and storage facilities to Guangwu Town areas and, based on the information available to the Directors, it is expected that the relocations will be completed by 31 December 2010. The PRC legal advisors to the Company confirmed that Zhengzhou Siwei should bear no liabilities for the leasing after it moves out of such lands. However, until Zhengzhou Siwei moves out of such lands, it may be subject to revocation of its rights to lease, and any resulting losses could materially and adversely affect the Target Group.

In respect of the above title defects in the properties of Zhengzhou Siwei, the Controlling Shareholders and Mr. Li Rubo have undertaken to indemnify the Enlarged Group against any damages, losses, expenses or liabilities which are or become payable or incurred by any members of the Enlarged Group, including relocation costs and expenses (if any), as a result of, relating to, arising from or in connection with any title defects of the properties owned, leased or otherwise used by the Enlarged Group. For details of the properties, please see the sub-section headed “Properties” under the section headed “Business of the Target Group” of this circular.

The Target Group has not processed construction projects approval procedures for some of the construction projects.

For the hydraulic roof supports machining workshop project located at No. 7 Jinsuo Road, hydraulic roof supports parts machining, assembling and welding workshop project located at Western Side of Yinping Road South and hydraulic roof supports processing workshop project, Zhengzhou Siwei has not processed the relevant procedures to obtain approvals for such construction projects due to failure to make timely application. Zhengzhou Siwei applied for such approvals later and was instructed by the Economic and Development Bureau under the Administrative Committee of the Zhengzhou High and New Technology Industries Development Zone (“Economic Bureau”), a competent authority, that Zhengzhou Siwei may continue operating all of its projects in accordance with the existing production method and scale, and the Economic Bureau would not impose any penalties on Zhengzhou Siwei and its relevant employees for the above mentioned construction projects without the approval of such department. On 4 November 2009, the Economic Bureau issued a confirmation letter to confirm such instruction. Pursuant to the requirement of relevant PRC laws and regulations, commencing construction of unapproved projects and undergoing construction of projects not in accordance to the approval shall result in termination of constructions and legal actions against the related units and persons-in-charge. Such relevant PRC laws and regulations do not explicitly provide the amount of such penalty. Based on the confirmation letter issued by the Economic Bureau, the PRC legal advisers to the Company considered that the possibility to impose penalties by the Economic Bureau on Zhengzhou Siwei

RISK FACTORS

due to commencing construction of projects, the penalty of which have not been recorded in the financial statements of the Target Group, is low. However, the Directors of the Company could not exclude the possibility that Zhengzhou Siwei would be punished by the relevant competent authorities. If penalties were imposed, the operation of Target Group might be materially and adversely affected. The directors of the Target Group consider that the functions performed by these subject workshops could be replaced by outsourcing suppliers who will be readily available and the Directors concur on such view. The Target Group estimated that the potential impact in the event they have to stop the operation in those subject workshops to be an increase in the costs of production by approximately RMB12.9 million (including estimated relocation costs) or 1.25% for the year ended 31 December 2009.

While the Target Group are paying social insurance and housing fund for the employees, defects exist.

In December 1999, Zhengzhou Siwei completed the relevant social insurance registration procedure later than the statutory requirement under the PRC laws. According to the relevant PRC laws and regulations, Zhengzhou Siwei shall, within 6 months after the implementation of the Interim Regulations on Collection and Payment of Social Insurance Premiums, i.e. prior to 22 July 1999, complete the social insurance registration. However, as confirmed in the confirmation letter dated 25 August 2009 issued by Zhengzhou's Social Insurance Authorities, for the time since the relevant social insurance registration procedure has been completed, Zhengzhou Siwei has been able to comply with the relevant state laws and regulations requirements to take out various kinds of social insurance, including pension insurance, unemployment insurance, fundamental medical insurance, labour injury insurance and maternal insurance, as well as paying the various social insurance fees on time and in full without any shortfalls, missing payments or deferred matters. Since its establishment, there has been no repayable social insurance fee for Zhengzhou Siwei. Based on the above, the PRC legal advisers to the Company considered that the possibility of Zhengzhou Siwei to be punished by the relevant competent authorities due to the above-mentioned irregularities is low. However, the Directors could not exclude the possibility that Zhengzhou Siwei would be requested by relevant competent authorities for repayments or even penalties. Any late payment of social insurance may be subject to a 0.2% overdue penalty daily from the day past due date, in addition to the payment of the outstanding social insurance payment. The Target Group estimates that the maximum liabilities as result of the above-mentioned non-compliance would be approximately RMB1,888,000, including the outstanding social insurance payments which should be paid before the completion of the relevant social insurance registration procedure.

RISK FACTORS

In April 2005, Zhengzhou Siwei completed the housing fund registration procedure, which was later than the statutory requirement under the PRC laws. In accordance with the relevant PRC laws and regulations, Zhengzhou Siwei shall, within 60 days from the implementation of the Regulations on Management of Housing Provident Fund, i.e. prior to 2 June 1999, complete the corresponding housing fund payment and deposit registration and account establishment procedures. According to the confirmation letter dated 26 August 2009 issued by Zhengzhou Housing Fund Management Center, since establishment of the housing fund account, Zhengzhou Siwei has been able to comply with the relevant state laws and regulations requirements to pay the housing fund on time and in full without any shortfalls, missing payments or deferred matters, and no penalties were imposed or needed to be imposed by administrative authorities because of violating any relevant housing fund laws and regulations. However, due to the fact that Zhengzhou Siwei failed to establish the housing fund account in time, no housing fund were paid before establishment of the existing account. Thus the Directors could not completely exclude the possibility that Zhengzhou Siwei may be ordered to deposit the fund within the schedule required by Housing Fund Management Center. The Target Group estimates the maximum liabilities as result of the above-mentioned non-compliance would be approximately RMB890,000, including the outstanding housing fund payments which should be paid before the establishment of the housing fund account.

The payment of the outstanding social insurance and housing fund depends on the cooperation of the affected employees, which includes, but not limited to, them providing us with their identity cards and relevant materials (if applicable), and making their respective contributions to certain authorities. (1) In respect of social insurance, the affected employees involve two groups of staff. One group represents the staff who have left Zhengzhou Siwei, so the difficulty in obtaining such information and cooperation from such affected employees may make it very difficult for Zhengzhou Siwei to pay the outstanding social insurance fund. The other group of staff were from Zhengzhou Mining Machinery Factory, and their payment accounts on the social insurance fund were opened by Zhengzhou Mining Machinery Factory before Zhengzhou Siwei conducted the social insurance registration, so Zhengzhou Siwei could not pay the social insurance fund for them practicably. After Zhengzhou Siwei conducted the social insurance registration, Zhengzhou Siwei have paid the social insurance fund for such staff. (2) In respect of housing fund, the affected employees involve two groups of staff. One group represents the staff who have left Zhengzhou Siwei, so the difficulty in obtaining such information and cooperation from such affected employees may make it very difficult for Zhengzhou Siwei to pay the outstanding housing fund. As to the other group of staff who still work in Zhengzhou Siwei, Zhengzhou Siwei confirms that it has communicated with the competent housing fund authority and the competent housing fund authority orally confirmed that Zhengzhou Siwei need not pay the outstanding housing fund for such staff.

RISK FACTORS

As advised by the PRC lawyers to the Company, the affected employees have the right to take legal actions, however, except as otherwise stipulated by law, the limitation period of action regarding applications to an arbitration committee of labor dispute in the PRC for protection of civil rights in respect of labor dispute shall be one year. The PRC lawyers to the Company further advise that if the employees bring arbitration against Zhengzhou Siwei now or in the future for Zhengzhou Siwei's failure to pay relevant social insurance before December 1999 and/or relevant housing fund before April 2005 for them, since the limitation of action period is over, they may lose the right of winning the arbitration. Nevertheless, this cannot rule out the possibility that the arbitration committee of labour dispute or the people's court in the PRC may support the relevant employees' claims under certain special situations and Zhengzhou Siwei may be ordered to compensate the affected employees accordingly.

Based on the above, the Directors consider that the chance of the being penalised and required for payment of compensation to the affected employees is low. Moreover, the Controlling Shareholders and Mr. Li Rubo have undertaken to indemnify the Enlarged Group against any damages, losses, expenses or liabilities which are or become payable or incurred by any members of the Enlarged Group, as a result of, relating to, arising from or in connection with all activities and operations (business or otherwise) of the Target Group conducted before the Completion, including the potential penalties that the relevant authorities may impose on the Target Group as a result of the above-mentioned non-compliance in social insurance and housing fund registration. On this basis, no provision for the delay in social insurance and housing fund registration has been made in the financial statements. If penalties were imposed and/or compensation was made due to social insurance matters and/or housing fund matters while such amount cannot be indemnified by MML, the operation of Target Group might be materially and adversely affected.

The continued growth and prospect of the Target Group depends on its research and development ability to achieve technological innovation.

The ability of the Target Group to develop products to meet continuously evolving and advancing demand placed on coal mining equipment engineering and design specification is one of the key factors in its success because the market for the Target Group's product is characterised by continuous technological developments to provide better performance. Although the Target Group has successfully adapted to market needs in the past, the Target Group cannot guarantee that it will be able to continue to implement new technologies and to upgrade its production technologies to meet the changing needs of its customers in future. The Target Group's profits may be materially and adversely affected in the event that the Target Group is unable to respond to rapid technological advances or new innovative products developed by its competitors. The Target Group's products may also become obsolete because of technological developments in the market. In addition, many customers of the Target Group have their own research capabilities. There is no assurance that the Target Group's customers will not ultimately develop and manufacture their own products and stop purchasing from the Target Group.

RISK FACTORS

The Target Group may lack adequate production capacity to meet further customer demand for its products, which could lead to decline in its operating results and loss of market share.

The Target Group's ability to manufacture products is limited by the capacity of its production facilities and workforce. The historic growth of the Target Group has resulted in continuing capacity constraints and currently continues to operate its production at near full capacity. The Target Group outsources manufacturing of some components and parts and certain production process to subcontractors, but there is no assurance that the Target Group will be able to manage its capacity effectively or that skilled labour will be available. Such constraints in capacity may result in loss of market share and customers for its products, which may materially and adversely affect its operations and results.

The expansion of production capacity must be achieved either by upgrading the Target Group's existing equipment or by acquiring new equipment and hiring skilled workers to operate it, which requires the Target Group to commit to considerable capital expenditures. The Target Group cannot guarantee that sufficient funding for the expansion will be available, or equipment will be available in a timely manner or at a reasonable cost, or that the Target Group will be able to recruit a sufficient number of skilled employees to install or operate the equipment. If the Target Group is unable to increase its production capacity effectively and meet quality requirements in a timely manner, the operating results and prospects of the Target Group could be materially and adversely affected.

Significant and continuous capital investment are required by the business of the Target Group which may not be completed as planned and may materially and adversely affect the Target Group's financial condition.

The business of the Target Group requires significant and continuous capital investment. The investment may not be completed as planned and may exceed the original budgets. In addition, the investment may not achieve the intended economic results or commercial viability. Actual capital expenditures for the new business may significantly exceed budgets because of various factors beyond the Target Group's control, which in turn may materially and adversely affect the Target Group's business, results, financial condition and prospects.

The Target Group provides cross guarantees to banks in respect of banking facilities granted to independent third parties, and may be liable to the banks if the counter parties default on their loans.

RISK FACTORS

The Target Group and two independent third parties have mutually agreed to issue cross guarantees to the extent of HK\$204,545,000 in aggregate to banks in respect of banking facilities granted to Zhengzhou Siwei and the third parties as at 30 April 2010. Under such cross guarantees, Zhengzhou Siwei and the third parties are jointly and severally liable for all or any of each of their borrowings from the banks. As at 30 April 2010, the maximum liability of Zhengzhou Siwei under such guarantees is the amount of bank loans drawn under the cross guarantees by the third parties at that date of approximately HK\$79,545,000. During the Track Record Period, the Target Group has not experienced any instances where it has to honour its guarantee obligations as a result of a failure by counter parties to repay their loans. However, if any default occurs and the Target Group is called upon to honour its guarantees, the Target Group's results and financial position will be materially and adversely affected. Further details in respect of cross guarantees are set out in the sub-section headed "Indebtedness Statement" in the section headed "Financial information of the Target Group" of this circular.

The Target Group may not be able to adequately protect its intellectual property, which could materially and adversely affect its business operations.

The Target Group relies on patent registrations to protect its intellectual property. The Target Group cannot guarantee that these measures will be sufficient to prevent any misappropriation of its intellectual property, or that its competitors will not independently develop, or obtain through licensing, alternative technologies that are substantially equivalent or superior to those of the Target Group. There is also no assurance that third parties, including the competitors of the Target Group, will not successfully challenge its right to use certain intellectual property rights.

PRC's intellectual property laws are still evolving and the level of protection and means of enforcement of intellectual property rights in the PRC differ from those in other jurisdictions. Enforcement of the Target Group's intellectual property rights could be costly, and it may not be able to immediately detect unauthorised use of its intellectual property and take the necessary steps to enforce its rights in such property. In the event that the measures taken by the Target Group or the protection afforded by law do not adequately safeguard its proprietary technology, the business, prospects and operating results of the Target Group could be materially and adversely affected due to competing sales of products that take advantage of the intellectual property of the Target Group. Furthermore, there is no assurance that any of the Target Group's intellectual property rights will not be challenged by third parties. Adverse rulings in any litigation or proceeding could result in the loss of its proprietary rights and subject it to substantial liabilities, or even disrupt its business operations.

Business of the Target Group with respect to its production process is vulnerable to power shortages.

RISK FACTORS

Similar to other companies located in the PRC in general, the Target Group's operations are vulnerable to power shortages as all of the Target Group's assets, production facilities, manufacturing operations, and its suppliers are located in the PRC. There can be no assurance that power shortages will not affect the Target Group in the future. Furthermore, as the Target Group has no insurance coverage for business interruptions caused by power shortages, including cover for loss of profits from such interruptions, any losses that the Target Group may suffer due to these kind of circumstances could materially and adversely affect the Target Group's operating results, financial condition, business and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in PRC's economic, political and social conditions, as well as government policies, could materially and adversely affect the business, financial condition, prospects and operating results of the Enlarged Group.

The PRC economy differs from the economies of most developed countries in a number of respects, including, among other things, the structure of economy, level of government involvement, level of development, level of control of capital investment, growth rate, control of foreign exchange and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. While over the past 30 years, the PRC economy has grown significantly, there is no guarantee that such rapid growth rate is sustainable. In addition, the PRC government has implemented economic measures to emphasize the utilization of market forces in economic development, such measures, however, may be adjusted, modified or applied inconsistently among industries or across various regions of the country. As a result, the Enlarged Group may not continue to benefit from all, or any, of these measures. In order to stimulate the growth of the PRC economy, the PRC government has implemented and may continue to implement various monetary and other economic measures for this purpose. However, there is no assurance that such measures will succeed. Furthermore, there is no certainty on whether changes in the PRC's political, economic, and social conditions, as well as government policies will have any adverse effect on the current or future business, financial condition, prospects and operating results of the Enlarged Group.

After Completion, the Company and the Target may be treated as resident enterprises for PRC tax purposes under the new enterprise income tax law, which could result in the imposition of 25% PRC enterprise income tax payable on their taxable global income.

RISK FACTORS

On 16 March 2007, the National People's Congress of the PRC passed the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (“New Income Tax Law”), which took effect as of 1 January 2008. On 6 December 2007, the Implementation Rules of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (“Implementation Rules”) were also enacted, and took effect as of 1 January 2008. In accordance with the new laws and regulations, a unified enterprise income tax rate of 25% and unified tax deduction standards will be applied equally to both domestic enterprises and foreign-invested enterprises.

Under the New Income Tax Law and the Implementation Rules, enterprises established under the laws of foreign jurisdictions other than the PRC may nevertheless be considered as PRC-resident enterprises for tax purposes if these enterprises have their “de facto management organization” within the PRC. Under the Implementation Regulations, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. The directors of the Target and the Proposed Directors are located in the PRC, so there's a high chance that the Target and the Company would be considered as PRC-resident enterprises after Completion. If they are treated as resident enterprises for PRC tax purposes, they will be subject to PRC tax on their worldwide income at the 25% unified tax rate, which could have an impact on their effective tax rate and an adverse effect on their net income and results of operations.

After Completion, if the Company and the Target are treated as non-resident enterprises of PRC, dividends received from their PRC subsidiary may be subject to PRC withholding tax.

Under the New Income Tax Law and the Implementation Rules, dividend payments between certain “qualified PRC-resident enterprises” shall be exempted from income tax under the New Tax Law, and the Implementation Rules refer to “qualified PRC resident enterprises” as enterprises with “direct equity interest”. Therefore, if the Company and the Target are considered PRC-resident enterprises for tax purposes, dividends distributed by Zhengzhou Siwei to the Target and dividends distributed by the Target to the Company may be exempted from PRC income tax. However, due to uncertainty of the implementation of the New Income Tax Law and the Implementation Rules, no assurance can be provided that dividends distributed by Zhengzhou Siwei to the Target and dividends distributed by the Target to the Company will constitute dividend income between qualified resident enterprises which qualifies for tax exemption even if the Company and the Target are considered PRC-resident enterprises for tax purposes. After Completion, if the Company is considered a PRC-resident enterprise, any dividends distributed by the Company to the Shareholders who are not PRC-resident as well as gains realized by such Shareholders from the transfer of the Shares may be subject to PRC withholding tax at the rate of up to 10%, and this would adversely affect the investment value of the Shareholders in the Company.

RISK FACTORS

The New Income Tax Law provides that an income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are “non-resident enterprises”, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC, and the State Council of the PRC has reduced such rate to be actually executed at 10% through the Implementation Rules, except otherwise provided in the tax treaties between PRC and other states or regions. Under the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (“Tax Agreement”) which took effect on 1 January 2007, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% if the Hong Kong enterprise owns at least 25% of the PRC enterprise, otherwise, the dividend withholding tax rate is 10%. However, pursuant to the Notice on How to Understand and Identify the Owner of Benefits in Tax Agreement (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》) (“Notice 601”) issued by the State Administration of Taxation on 27 October 2009, if a company is deemed a channel company (導管公司) other than the qualified owner of benefits, it can not enjoy the favorable tax treatment provided in the Tax Agreement. According to the Notice of the State Administration of Taxation on issues relating to the administration of the dividend provision in tax treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (“Notice 81”) promulgated on 20 February 2009, the corporate recipients of dividends distributed by PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. And, if the primary purpose of the transactions or arrangements is deemed by the relevant authorities to be entered into for the purpose of enjoying a favorable tax treatment, the favorable tax benefits enjoyed pursuant to the Tax Arrangement may be adjusted by the relevant tax authorities in the future. On 24 August 2009, the State Administration of Taxation issued the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation) (《非居民享受稅收協定待遇管理辦法(試行)》) (the “Administrative Measures”), which requires that the non-resident enterprises obtain the approval for enjoying the treatments under tax treaties from the competent tax authority. Therefore, if the Company and the Target are considered non-resident enterprises for PRC tax purposes, dividends distributed by Zhengzhou Siwei to the Target may be subject to a PRC withholding tax at a rate of 5% if the requirements of the tax regulations mentioned above are satisfied and aforementioned approvals are obtained, and dividends distributed by the Target to the Company may be exempted from PRC income tax. If dividend payments from Zhengzhou Siwei to the Target are subject to PRC withholding tax, the Company’s financial condition, results of operations may be adversely affected.

RISK FACTORS

Implementation of the new PRC Labour Contract Law may increase labour costs for the Enlarged Group.

The PRC Labour Contract Law was adopted by the Standing Committee of the National People's Congress of PRC on 29 June 2007 and became effective on 1 January 2008. Compliance with the requirements under the PRC Labor Contract Law, in particular the requirements to make severance payments and enter into non-fixed term employment contracts with employees, may increase our labor costs. Pursuant to the PRC Labor Contract Law, Zhengzhou Siwei is required to enter into non-fixed term employment contracts with employees who have worked for them for more than ten years or, unless otherwise provided in the PRC Labor Contract Law, for whom a fixed term employment contract has been concluded for two consecutive terms. Zhengzhou Siwei may not be able to terminate non-fixed term employment contracts without appropriate cause. Zhengzhou Siwei is also required to make severance payments to employees under fixed term contract upon expiry of their employment contracts, unless such employee voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. In addition, Zhengzhou Siwei is strictly required to (i) enter into labor contracts if it is to establish labor relationships with its employees; (ii) provide wages, which is not lower than the local minimum wage standards, to its employees; (iii) provide the working conditions that meet relevant PRC laws and regulation for safety and sanitation. Further, liability for damages or fines may also be imposed for any material breach of the PRC Labor Contract Law. The PRC Labour Contract Law also requires that social insurance be paid on behalf of employees, otherwise employees are entitled to unilaterally terminate the labor contract. If labor costs increase, the Enlarged Group's production costs will increase and it may not be able to pass on such additional costs to its customers due to competitive pricing pressures. There is no assurance that any strikes, disputes and work stoppages will not arise in the future. Increases in the Enlarged Group's labor costs and future disputes with its employees could materially and adversely affect the business, financial condition, prospects or operating results of the Enlarged Group.

It may be difficult to effect service of process upon the directors or the management of the Enlarged Group who reside in the PRC, or to enforce any judgment obtained from non-PRC courts against them in the PRC.

Some of the directors and members of the management of the Enlarged Group reside within the PRC. The PRC government has not entered into treaties for the reciprocal recognition and enforcement of judgments of courts with jurisdictions including the United States, the United Kingdom, most other western countries and Japan. The Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong King Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) took effect on 1 August 2008. However, only enforceable final judgments requiring payment of money in civil and commercial cases pursuant to choice of court agreements in writing may be applied for recognition and enforcement. As a result, it may not be possible for investors to effect service of process upon those persons in the PRC, or to enforce any judgment obtained from a non-PRC court against those persons in the PRC. Furthermore, it may be difficult or impossible to obtain recognition and enforce in the PRC of any judgment obtained from a court of any other jurisdiction in relation to any matter not subject to a binding arbitration provision.

RISK FACTORS

Interpretation and enforcement of PRC laws and regulations involves uncertainties, which could materially and adversely affect the business of the Enlarged Group.

Most of the operations of the Enlarged Group will be conducted in the PRC immediately upon Completion. The PRC legal system is a civil law system based on written statutes, and prior court decisions have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations governing economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade. As many of these laws, regulations and legal requirements are relatively new or have not been fully developed, and there is only limited volume of published cases (which are non-binding in any event), the interpretation and enforcement of these laws and regulations involve uncertainties. This may result in additional restrictions and uncertainty for the business of the Enlarged Group. In addition, any changes to such laws and regulations may materially increase costs and regulatory exposure for the Enlarged Group in complying with them.

Any occurrence of severe contagious disease in the PRC or elsewhere may cause damage to economies, financial markets and business activities in the PRC and elsewhere, which in turn could result in material adverse effect on the business of the Enlarged Group.

From November 2002 to June 2003, certain regions of the PRC and certain other Asian countries experienced an outbreak of Severe Acute Respiratory Syndrome (“SARS”), which caused a significant negative impact on the economies of the PRC and of the Asia-Pacific Region at that time. The recent outbreak of Influenza A (“H1N1”) has caused deaths worldwide. Countries and territories including Hong Kong have reported infected cases. It is unclear whether the epidemic will become more aggressive or will subside in the near future. The possible re-occurrence of SARS, and any spread of severe contagious disease such as H1N1 and avian flu, or any similar public health problem may have a material adverse effect on the overall business sentiment and environment of the PRC. This could in turn have a material negative impact on the business, operations and results of the Enlarged Group. The Enlarged Group’s operations may be affected by various health-related factors, including travel restrictions, quarantines, or closures of some of its offices and manufacturing facilities, major adverse health issues for key personnel, and a general downturn of the economy.

RISK FACTORS

RISK RELATING TO THIS CIRCULAR

Certain statistics and other information relating to the economy and the industry contained in this circular were derived from various official sources and government publications and may not be reliable.

Statistics, industry data and other information relating to the economy and the industry contained in this circular have been derived from various official government publications with information provided by Chinese and other government agencies. Although the Company believes that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics, and has no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading, the Company, the Sponsor or their respective directors, agents and advisors cannot assure you or make any representation as to the accuracy or completeness of such information and statistics. None of the Company, the Sponsor, or their respective directors, agents or advisors have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economy and the industry derived from official government sources may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources. Shareholders should give careful consideration as to how much weight or importance the Shareholders should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

INDUSTRY OVERVIEW

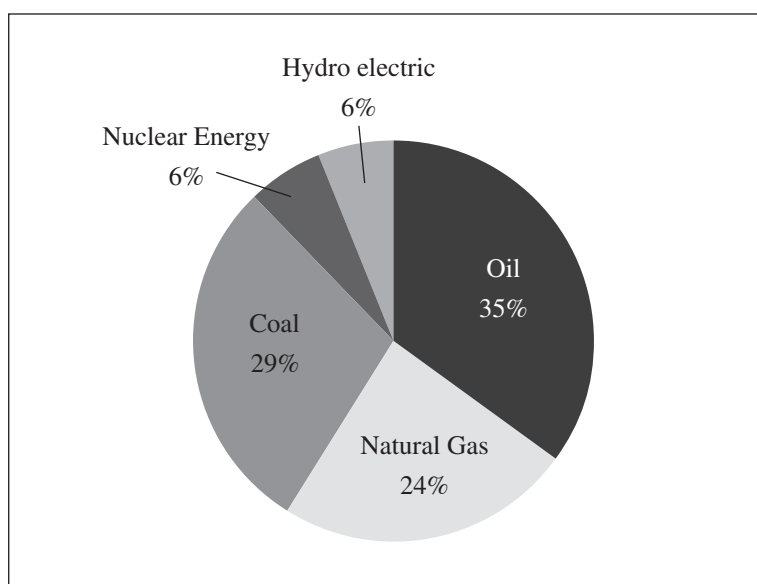
Certain information and statistics in this section and elsewhere in this circular relating to the Chinese economy and the global and Chinese coal industry are derived from various official and independent third party sources. In addition, certain information and statistics in this section and elsewhere in this circular relating to China's coal mining machinery industry have been derived from an industry report prepared by the China National Coal Machinery Industry Association entitled "Overview of China's Coal Mining Machinery Industry" (the "Industry Report"). The Company did not commission the Industry Report, and the Industry Report is publicly available.

The Company believes that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. The Company has no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. No independent verification has been carried out on such information and statistics by the Company, the Sponsor or their respective directors, agents and advisors. The Company, the Sponsor, and their respective directors, agents and advisors make no representation as to the accuracy of such information and statistics.

GLOBAL COAL INDUSTRY

According to the BP Statistical Review 2009, worldwide primary energy consumption grew by a CAGR of 2.9% from 9,810 million tonnes oil equivalent ("mtoe") in 2003 to 11,295 mtoe in 2008. Coal, oil, and natural gas represented 29.2%, 34.8%, and 24.1% of total consumption in 2008, respectively. Global coal consumption increased to 3,303.7 mtoe in 2008 representing a CAGR of 4.9% since 2003 whereas oil and natural gas have increased by CAGRs of 1.3% and 3.1%, respectively during the same period. Coal's importance as a global energy source is increasing.

Table 1: World Primary Energy Consumption by Fuel in 2008



Source: BP Statistical Review 2009

INDUSTRY OVERVIEW

The Asia-Pacific region is home to many major coal consuming and producing countries, accounting for 61.5% and 61.1% of global consumption and production, respectively, according to the BP Statistical Review 2009. The Asia-Pacific region, due to its expanding economy and resulting energy needs, has exhibited a fast growth in coal production. During 2003 to 2008, Asia's consumption and production of coal increased by a CAGR of 8.8% and 9.1%, respectively, exceeding worldwide coal consumption and production growth rates during the same period, which were 4.9% and 5.7%, respectively.

According to the BP Statistical Review 2009, the largest coal producing countries are China, the United States, Australia and India representing 42.5%, 18.0%, 6.6% and 5.8%, respectively of global coal production in 2008. Large coal producing countries are typically also the countries with large proven coal reserves within their borders. Though widely distributed, coal reserves are concentrated in the United States, Russia, China, Australia and India possessing 28.9%, 19.0%, 13.9%, 9.2% and 7.1%, respectively of proven worldwide reserves as at the end of 2008. With proven reserves expected to last approximately 122 years assuming current mining rates, coal is expected to continue to play a vital role in global power generation as abundant low-cost energy source.

CHINA COAL INDUSTRY

Reserves in China

China's coal reserves are abundant but unevenly distributed. According to the BP Statistical Review 2009, China has the world's third largest proven coal reserves with 114.5 billion tonnes or 13.9% of world proved coal reserves as at the end of 2008. On the other hand, China has only 1.2% and 1.3% of the world proved oil and gas reserves as at the end of 2008, respectively. According to the China Investment Consulting's Report on China Coal Industry 2009-2012, around 50% of China's coal resources are concentrated in regions between the Greater Xing'an Mountain in the north of China and Taihang, Helan Mountain, which encompass the areas of Inner Mongolia, Shanxi, Shaanxi, Ningxia, Gansu, and Henan. Most of the remaining 50% are concentrated in Guizhou, Yunnan and Sichuan provinces.

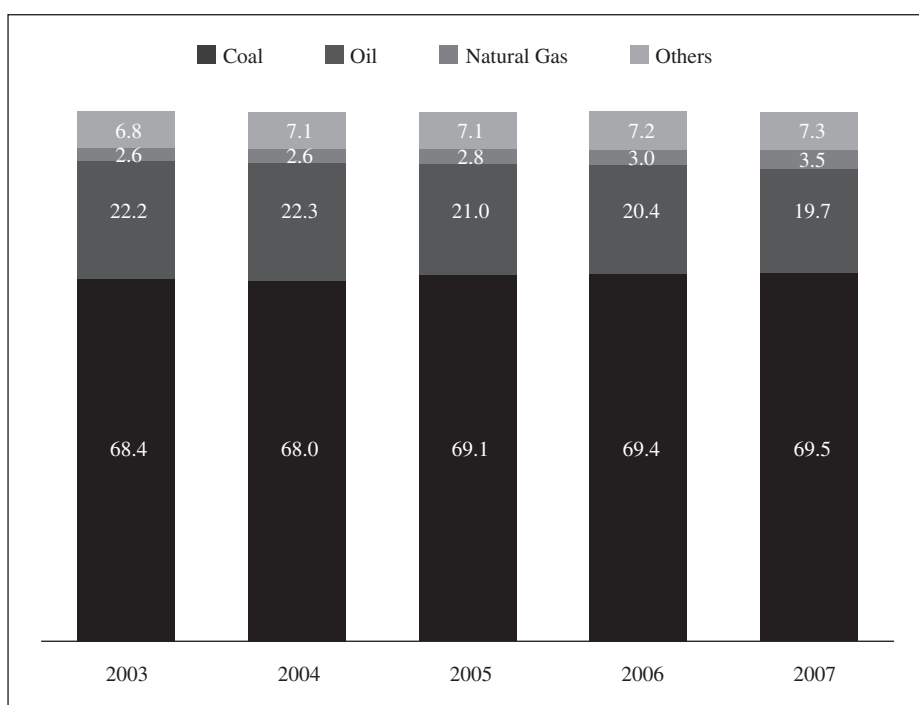
INDUSTRY OVERVIEW

Coal Production and Consumption in China

China is the world's largest coal producing country, having produced 1,416 mtoe of coal in 2008 and sharing 42.5% of the global production, according to the BP Statistical Review 2009. Among the world's top coal producing countries, China is experiencing a fast growth rate in production. From 2003 to 2008, coal production in China grew at a CAGR of 10.2%, outpacing the global CAGR of 5.7%. Meanwhile, China is expected to continue to be the world's largest producing country of coal.

China is also the world's largest coal consuming country, having consumed 1,406 mtoe of coal in 2008 and sharing 42.6% of the global consumption, according to the BP Statistical Review 2009. From 2003 to 2008, coal consumption in China grew at a CAGR of 10.5%, outpacing the global CAGR of 4.9%. As China lacks significant oil and natural gas resources, coal is its most important energy resource. According to the China's National Bureau of Statistics, coal accounted for 69.5% of China's total primary energy consumption of its total energy consumption in 2007.

Table 2: Composition of China's Primary Energy Consumption (%)



Source: China's National Bureau of Statistics

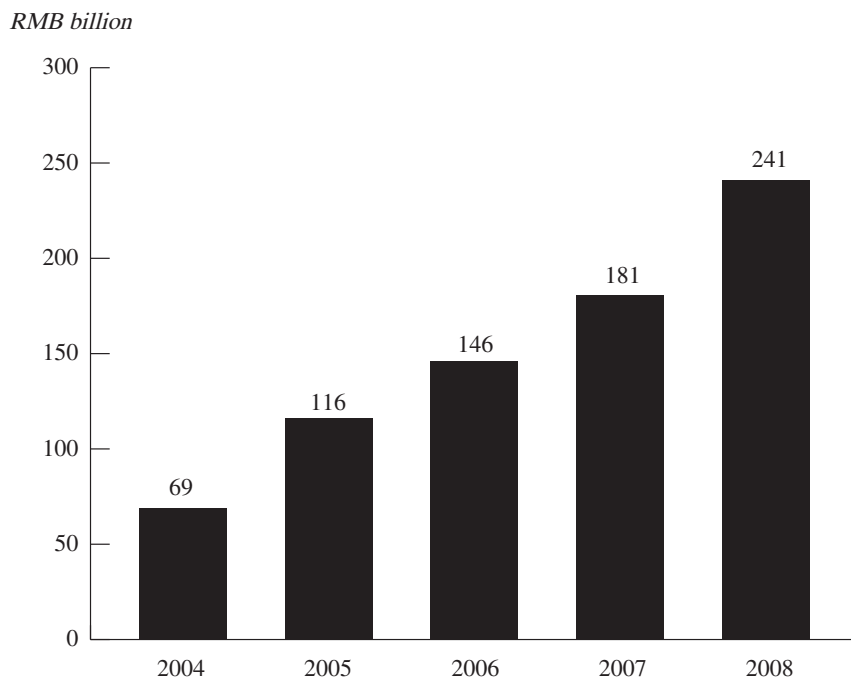
INDUSTRY OVERVIEW

According to the China's National Bureau of Statistics, the real GDP of China grew at a CAGR of 10.8% from 2003 to 2008. Such rapid growth has led to a strong demand for energy. The sustainability of China's future growth depends on its continued ability to generate energy, of which coal plays a significant role. Coal is expected to remain China's primary source of energy for the foreseeable future.

CHINA COAL MINING MACHINERY INDUSTRY

Since 2000, the rapid increase in coal consumption has led to unparalleled and robust growth in the coal mining industry in China. Equipment and service industries providing coal mining, processing and utilization have also entered into one of the most rapid development stages in history, as significant growth in coal production, as well as deeper mine processing levels have reinforced the needs of the industry. In addition, the significant improvement in sales revenue and net income in the coal mining industry have stimulated further demand for new mining machinery equipment. According to the China's National Bureau of Statistics, fixed asset investment in mining and washing of coal industry in China increased from RMB69.0 billion in 2004 to RMB241.1 billion in 2008 with a CAGR of 36.7%.

Table 3: Fixed asset investment in mining and washing of coal industry



Source: China's National Bureau of Statistics

INDUSTRY OVERVIEW

According to a research report on China coal mining machinery industry issued by the China National Coal Machinery Industry Association (《中國煤炭機械工業協會》) in July 2009, the total sales value of coal mining machinery industry increased from RMB10.4 billion in 2003 to RMB58.0 billion in 2008, representing a CAGR of 41.0%. In particular, the total sales value of hydraulic roof supports increased from RMB1.4 billion in 2003 to RMB10.8 billion in 2008, representing a CAGR of 50.0%. Formally established in 1989, China National Coal Machinery Industry Association was approved by the Ministry of Civil Affairs of the People's Republic of China and registered with the State Administration for Industry and Commerce of the People's Republic of China as a national social organization legal entity. It is a nationwide coal mining machinery association opened for voluntary enrollment from enterprises engaging in research, design, manufacture and sales of coal mining machineries, electrical devices and coal mine safety equipments as well as related colleges and institutions. The following tables set forth the historical data of the major China's coal mining equipment by total sales value and by units sold for the period indicated.

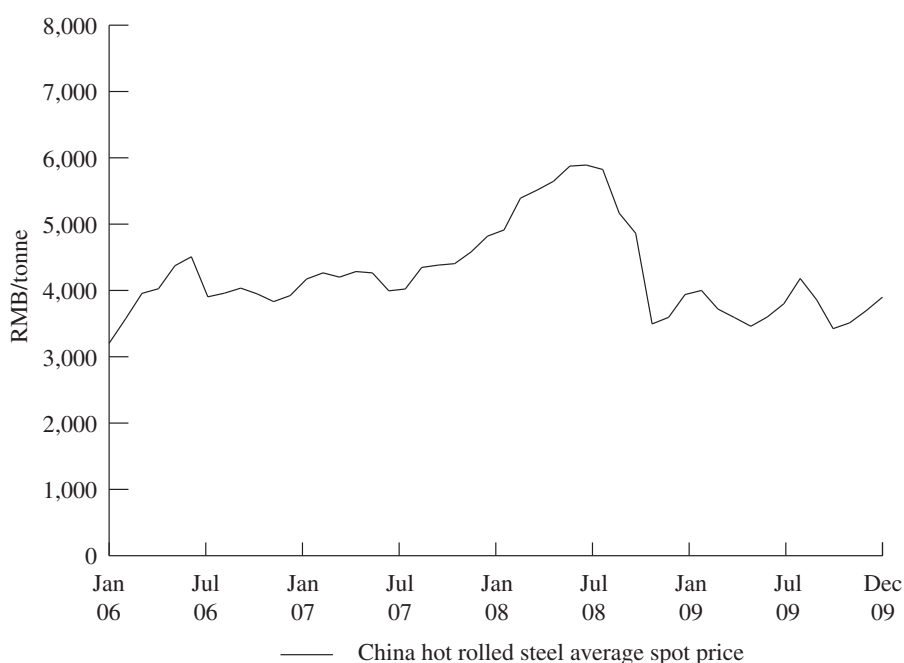
Table 4: The major China's coal mining equipment by total sales value and by units sold

	2003	2004	2005	2006	2007	2008	2003-2008 CAGR
<i>(In RMB million except CAGR data)</i>							
Total sales value of coal mining machinery by PRC manufactures to domestic customers in the PRC	10,410.8	11,828.7	21,116.3	28,997.9	49,609.0	57,988.2	41.0%
Total sales value of certain products:							
Roadheader	354.0	844.9	1,260.0	1,246.4	1,846.8	2,551.7	48.4%
Shearer	1,012.0	1,233.0	2,375.0	2,980.0	3,003.0	3,635.5	29.1%
Armoured face conveyor	601.6	1,038.2	1,596.9	1,957.5	2,436.0	2,118.0	28.6%
Hydraulic roof support	1,425.3	2,680.8	4,475.5	7,467.8	9,351.8	10,809.5	50.0%
Major coal mining equipment sold by units							2003-2008 CAGR
Roadheader	236	497	700	656	972	1,343	42%
Shearer	253	274	500	596	546	661	21%
Armoured face conveyor	3,539	4,944	5,323	3,915	4,872	4,236	4%
Hydraulic roof supports	10,181	17,872	21,312	29,871	40,660	46,998	36%

Source: China National Coal Machinery Industry Association

INDUSTRY OVERVIEW

Steel is the main raw material for the production of coal mining machinery industry. The price of steel in the PRC has generally been increasing from 2006 through to the third quarter of 2008 attributable to factors including the surge in steel demand in the PRC during that period. Steel prices have decreased since the third quarter of 2008 mainly as a result of the world economy downturn and the slowdown of growth in the PRC. Steel prices in 2009 remain relatively low compared to previous years. The chart below sets forth the price of steel in the PRC from January 2006 through December 2009.



Source: Bloomberg

COMPETITIVE LANDSCAPE AND MAJOR PLAYERS IN CHINA

Domestically produced coal mining machinery is still mainly used in coal mines in China because of the relative price competitiveness, continuous improvements in quality and technological standards and also prompt aftermarket services in China. According to the research report issued by the China National Coal Machinery Industry Association, domestic manufacturers benefit considerably from production cost advantages with the average prices as low as half the price of imported equipment. Although the quality of coal mining equipment manufactured in China has generally lagged behind imported advanced products in terms of technical quality, reliability and performance, the quality of domestic coal mining equipment has been continuously improving in the past few years with a number of breakthroughs in research and development, design and manufacturing. Currently, the quality gap between the high-end domestic coal mining equipment and the international ones have been gradually narrowed.

INDUSTRY OVERVIEW

According to the China National Coal Machinery Industry Association, imported coal mining machinery only accounted for approximately 3% of the total coal mining machinery market in China between 2003 and 2008. China's coal mining equipment manufacturing industry is characterized by a large number of domestic manufacturers and is relatively fragmented. According to the China National Coal Machinery Industry Association, there were approximately 330 domestic coal machinery manufacturers in China in 2008. The following table sets for the top 10 coal machinery enterprises among the members of the China Coal Machinery Association by total sales volume in 2008.

Table 5: Ranking of top 10 coal machinery enterprises by sales volume in 2008

Ranking	Name of Manufacturers
1.	Zhengzhou Coal Machinery Group Co., Ltd. (鄭州煤礦機械集團股份有限公司)
2.	China Coal Zhangjiakou Coal Mining Machinery Co., Ltd. (中煤張家口煤礦機械有限責任公司)
3.	China Coal Beijing Coal Mining Machinery Co., Ltd. (中煤北京煤礦機械有限責任公司)
4.	Pingdingshan Coal Mine Machinery Co., Ltd. (平頂山煤礦機械有限責任公司)
5.	Sany Heavy Equipment Co., Ltd. (三一重型裝備有限公司)
6.	Shandong Tiansheng Mine Equipment Co., Ltd. (山東天晟煤礦裝備有限公司)
7.	Ningxia Tiandi Benniu Industrial Group Co., Ltd. (寧夏天地奔牛實業集團有限公司)
8.	Shanxi Pingyang Industry Machinery Co., Ltd. (山西平陽重工機械有限責任公司)
9.	Shandong Mining Machine Group (山東礦機集團有限公司)
10.	Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd. (鄭州四維機電設備製造有限公司)

Source: China National Coal Machinery Industry Association

According to the China National Coal Machinery Industry Association, there were approximately 27 domestic hydraulic roof supports manufacturers in China in 2008. The following table sets for the top 5 hydraulic roof supports manufacturers among the members of the China National Coal Machinery Industry Association by units sold in 2008.

INDUSTRY OVERVIEW

Table 6: Ranking of top 5 hydraulic roof supports manufacturers by units sold in 2008

Ranking	Name of Manufacturers	Number of hydraulic roof supports sold in 2008 (units)
1.	Zhengzhou Coal Machinery Group Co., Ltd. (鄭州煤礦機械集團股份有限公司)	10,584
2.	Pingdingshan Coal Mine Machinery Co., Ltd. (平頂山煤礦機械有限責任公司)	5,213
3.	Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd. (鄭州四維機電設備製造有限公司) ⁽¹⁾	4,223
4.	China Coal Beijing Coal Mining Machinery Co., Ltd. (中煤北京煤礦機械有限責任公司)	3,632
5.	Shanxi Pingyang Industry Machinery Co., Ltd. (山西平陽重工機械有限責任公司)	2,470

Source: China National Coal Machinery Industry Association

⁽¹⁾ The number of units of hydraulic roof supports sold in 2008 by Zhengzhou Siwei is based on its audited revenue prepared under the generally accepted accounting principles in the PRC, whereas the number of units of hydraulic roof supports sold by Zhengzhou Siwei as disclosed in the section headed “Financial information of the Target Group” of this circular is based on audited revenue prepared under the generally accepted accounting principles in Hong Kong. This results in the differences.

MAJOR INDUSTRY TRENDS AND GROWTH FACTORS IN THE PRC COAL MACHINERY INDUSTRY

Enhancement in coal mining mechanisation level

In the “Eleventh Five-year Plan for Coal Industry Development” (《煤炭工業發展“十一五”規劃》) (“Eleventh Five-year Plan”) published by the National Development and Reform Committee of the PRC in January 2007, promoting the mechanisation rates of small and medium-sized coal mines was one of the key tasks for growth of the PRC coal industry. Furthermore, the Eleventh Five-year Plan also stated that the mechanisation rate for the extraction of coal should be over 95%, 80% and 40% respectively for large, medium-sized and small coal mines in China by 2010. The China National Coal Machinery Industry Association believes that the overall mechanisation rate of coal mines in China will increase from 42% in 2006 to 77.6% in 2010 based on the Eleventh Five-year Plan. According to the estimation by the China Coal Industry Association, the mechanisation level of coal mining machinery equipment will be further enhanced and the demand for coal mining machinery equipment will reach RMB30.1 billion from 2009 to 2015, while the Chinese government plans to invest another RMB12.1 billion in upgrading the existing facilities during the same period.

INDUSTRY OVERVIEW

Demand for the construction of new coal mines

According to the research report by the China National Coal Machinery Industry Association, the domestic coal production increased from 2.2 billion tonnes to 2.6 billion tonnes from 2005 to 2008 while the fixed asset investment in coal industry increased from RMB116.2 billion to RMB241.1 billion. In January 2009, the Ministry of Land and Resources of the PRC announced in the “National Mining Resources Plan (2008-2015)” (《全國礦產資源規劃(2008-2015年)》) that estimated coal production volume will increase to more than 3.3 billion tonnes by 2015. In view of the continued growth of domestic coal production, the fixed asset investment in coal industry is estimated to maintain a steady growth. According to the China National Coal Machinery Industry Association, the investment in coal mining machinery accounts for approximately 35% of the total investment in new coal mines. In addition, it was stated in the Eleventh Five-year Plan that the principle of taking “integration as the key strategy, and building appropriate new constructions as supplementary strategy” will be adopted for coal development, control on small coal mine constructions shall be tightened, small to medium sized coal mines shall be consolidated, the overall mine operation shall be improved, construction of large-scale coal bases shall be expanded, and to give priority to the construction of large, modernized open pit coal mines as well as safe and high-efficiency mines that have annual production capacities of over 10 million tonnes, and optimize coal production process. This is expected to increase the demand of coal mining machinery products in China.

Replacement of old equipment and aftermarket services

According to the China National Coal Machinery Industry Association, the average life span of most coal mining machinery produced domestically is around 5 years. As a result, the demand for new PRC coal mining machinery for the coming few years is believed to be continued with the rapid growth in the sales volume of PRC coal mining machinery over the past few years. Furthermore, the demand for aftermarket services and parts of coal mining machinery will increase with the increase in the mechanisation level of existing coal mines and the construction of new coal mines.

PRC REGULATORY OVERVIEW

POLICIES RELATING TO THE FOREIGN-INVESTED COAL MINING EQUIPMENT INDUSTRY

Pursuant to the Industrial Guidance Catalogue for Foreign Investment 《外商投資產業指導目錄(2007年修訂)》 which was jointly issued by the National Development and Reform Commission and Ministry of Commerce on 30 November 2004 and amended on 31 October 2007, effective on 1 December 2007, production of coal mining equipment is a business which allows foreign investment.

COAL MINING PRODUCTS SAFETY MARK

According to the The Interim Rules on Administration of Safety Symbol for Coal Mining Products 《煤礦礦用產品安全標誌管理暫行辦法》 promulgated by the State Administration of Coal Mine Safety and implemented on 1 January 2002, if the coal mining product falls under the Coal Mining Products Catalogue, which is distributed by the State Administration of Coal Mine Safety, and fails to obtain the safety symbol, no entity or individual may sell, purchase or use the coal mining product.

ENVIRONMENTAL PROTECTION

- A. Under the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》 implemented on 26 December 1989, all enterprises producing environmental pollution and other public hazards should incorporate environmental protection works into their plans and establish a responsibility system for environmental protection. These enterprises should adopt effective measures to prevent and control pollution and damage from waste gas, sewage, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities to the environment. Facilities for preventing and controlling pollution in construction projects should be designed, built and operated with the main construction works simultaneously. Such projects can commence operation or be used after passing the examination for acceptance conducted by the environmental protection administrative department in charge which reviewed and approved the original environmental impact reports.

PRC REGULATORY OVERVIEW

- B. Pursuant to the Regulation on the Administration of Construction Projects Environmental Protection 《建設項目環境保護管理條例》 issued and implemented on 29 November 1998 by the State Council and the Law of Environmental Impact Assessment of the PRC 《中華人民共和國環境影響評價法》 implemented on 1 September 2003, the State has conducted an assessment of environmental impact for construction projects. The State organises the projects into different categories according to the level of harm such projects could cause to the environment. If the construction projects will have a significant impact on the environment, environmental impact reports should be prepared, and full assessment of the impact should also be conducted. Projects with smaller environmental impact are required to compile environmental impact report statements and conduct analysis or special assessment on environmental impact. For those projects with minor environment impact, and which are not required to conduct an environment impact assessment, an environmental impact registration form is required to be filled out. The aforesaid environmental impact assessment documents as submitted by the construction units will be approved by the environmental protection administrative department in charge, which possess the right of approval in accordance with the national rules. For projects which have not gone through this examination process or have not received approval after such examination, the project approval department must not approve such projects and construction units cannot commence construction.
- C. According to the Law of the PRC on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》 amended on 28 February 2008 and with effect from 1 June 2008, construction projects or other water facilities which are newly constructed, reconstructed and expanded, discharge pollutants into the water directly or indirectly should conduct an environmental impact assessment in accordance with relevant laws. Enterprises which discharge industrial sewage directly or indirectly into water system should obtain pollutant discharge permits. Enterprises which discharge pollutants directly or indirectly into the water system should report to and register with the environmental protection administrative department in charge which is above county level in relation to the facilities which they own for discharging and treating water pollutants, as well as the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These enterprises are also required to provide relevant technical information about how to prevent and control water pollution. Enterprises which discharge pollutants directly into the water should pay pollutant discharge fee according to the types and quantities of their water pollutants and the levy standard.

PRC REGULATORY OVERVIEW

- D. The Law of the PRC on Prevention and Control of Air Pollution 《中華人民共和國大氣污染防治法》 which was amended on 29 April 2000 and took effect from 1 September 2000 requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere to comply with certain regulations relating to environmental protection. Units that discharge pollutants into the atmosphere should report to the local environmental protection administrative department in charge in relation to the facilities which they own for the discharge and treatment of pollutants, as well as the types, quantities and concentrations of the pollutants discharged under normal operating conditions. They are also required to provide relevant technical information about how to prevent and control atmospheric pollution. The PRC government has implemented a system on levying fees for discharging pollutants into the atmosphere based on the type and quantity of pollutants discharged. The standards on levying pollution discharge fees that the government has put in place have been based on the requirements for strengthening the prevention and control of atmospheric pollution as well as the national economic and technological conditions.
- E. According to the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Waste 《中華人民共和國固體廢物污染環境防治法》 amended on 29 December 2004 and with effect from 1 April 2005, enterprises producing industrial solid wastes should form and improve an accountability system in preventing and controlling environmental pollution, and adopt measures to prevent and control such wastes from polluting the environment. The State has implemented a reporting and registration system for industrial solid pollutants. In accordance with the relevant requirements, units producing industrial solid pollutants must provide relevant information to the local environmental protection administrative department in charge which is above county level, where such information includes the type, quantity, flow, storage and treatment of the industrial solid wastes.
- F. Under the Law of the PRC on Prevention and Control of Environmental Noise Pollution 《中華人民共和國環境噪聲污染防治法》, effective from 1 March 1997, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

PRC REGULATORY OVERVIEW

LABOUR AND PRODUCTION SAFETY

- A. In accordance with the Labour Contract Law of the PRC 《中華人民共和國勞動合同法》, effective from 1 January 2008, employers and employees should enter into written employment contracts to establish their employment relationship. When hiring employees, employers are required to inform the employees about their job duties, working conditions, working places, occupational hazards, production safety conditions, remuneration and other matters which employees may be concerned with. Employers and employees should fully perform their respective obligations in accordance with the commitments set forth in the employment contracts. Employers should pay remuneration to employees on time and in full in accordance with the commitments set forth in the employment contract and the PRC regulations, strictly adhere to the working quota standards, and are prohibited from compelling employees to work overtime. At the time of terminating an employment contract, the employers should provide evidence for such termination and arrange for the worker to transfer his/her file and social insurance relations within 15 days.
- B. Pursuant to the Employment Promotion Law of the PRC 《中華人民共和國就業促進法》 with effect from 1 January 2008, recruitment units should provide equal employment opportunities and fair employment conditions when recruiting employees. No employment discrimination will be allowed. The State protects female workers in that men and women have equal employment rights. Except as required by the State, employers must not refuse to employ women due to their gender or raise the employment standard for women. Additionally, employers are not allowed to include any restrictions regarding the marital status or pregnancy of female employees in employment contracts. Employers should also provide suitable care to workers from minority ethnic groups in accordance with the laws, and not discriminate against the disabled. Furthermore, they are not permitted to reject employment on the basis of the employees having a contagious disease or discriminate against workers from rural areas.
- C. According to the Regulation on Occupational Injury Insurance 《工傷保險條例》 which took effect from 1 January 2004, employers should pay occupational injury insurance fees for their employees.
- D. Under the Interim Measures Concerning the Maternity Insurance of Enterprises Employees 《企業職工生育保險試行辦法》, effective from 1 January 1995, employers should pay maternity insurance fees for their employees.

PRC REGULATORY OVERVIEW

- E. Under the Interim Regulations Concerning the Levy of Social Insurance Fees 《社會保險費徵繳暫行條例》 implemented from 22 January 1999 and the Interim Measures Concerning the Administration of the Registration of Social Insurance 《社會保險登記管理暫行辦法》 adopted since 19 March 1999, employers in the PRC should register social insurance with the local social insurance authorities, and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.
- F. According to the Regulation Concerning the Administration of Housing Fund 《住房公積金管理條例》 implemented since 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the housing fund management centre. Employers will then need to open housing fund accounts with entrusted banks for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.
- G. Pursuant to the Production Safety Law of the PRC 《中華人民共和國安全生產法》, effective from 1 November 2002, production and operating enterprises should be equipped with the safety conditions for production as set out in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entities that do not comply with such safety conditions will not be allowed to be engaged in any production or operating activities. Production and operating units should provide education and training programs to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the national standards or industrial standards. In addition, production and operating units should provide employees with protective equipments that meet national standards or industrial standards, and educate and supervise them to strictly comply with the production rules, regulations and operation procedures of the relevant units regarding safety.

PRC REGULATORY OVERVIEW

TAXATION

The key taxes applicable to the Company in the PRC are enterprises income tax and value added tax.

- A. Pursuant to the Enterprise Income Tax Law of the PRC 《中華人民共和國企業所得稅法》 and its implementation regulations implemented since 1 January 2008, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. If an organisation or establishment is set up by a non-resident enterprise in the PRC, it is subject to enterprise income tax for the income derived from such organisation or establishment in the PRC and the income derived from outside the PRC but with actual connection with such organisation or establishment in the PRC. For a non-resident enterprise which has not set up an organisation or establishment in the PRC, or has set up an organisation or establishment but the income derived has no actual connection with such organisation or establishment, its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax shall be levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in PRC but its earning income is not connected with the above-mentioned permanent establishment, will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 (“Tax Arrangement”), where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate in respect to the payment of dividends by such PRC enterprise to such Hong Kong enterprise is 5%. Otherwise, the withholding tax rate is 10% for the relevant dividends.

PRC REGULATORY OVERVIEW

Pursuant to Notice 81, residents of counter-parties to any tax treaties who own up to a certain proportion (25% or 10% in general) of capital of a Chinese resident company paying dividends are subject to taxation on such dividends at the tax rates as arranged. Any residents of the counter-parties qualifying to enjoy such tax benefits should: (1) be an enterprise subject to taxation on dividends in accordance to such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such Chinese residents company; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the Chinese resident company.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties For Trial Implementation 《非居民享受稅收協定待遇管理辦法（試行）》 (“Administrative Measures”) which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from PRC resident enterprises needs to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax benefits provided in the tax arrangements. Accordingly, if the provisions of Notice 81 are satisfied and approvals under the Administrative Measures are obtained, the payments of dividends by the PRC subsidiaries to the Hong Kong subsidiaries shall be subject to a PRC withholding tax at the rate of 5% as stipulated in the Tax Arrangement. However, if the application for enjoying the favorable withholding tax under the Tax Arrangement is not approved, an enterprise may not enjoy the favorable withholding tax under the Tax Arrangement. Furthermore, according to Notice 81, if the primary purpose of the transactions or arrangements in relation to the reorganization of the PRC subsidiaries is deemed by the competent authorities as for enjoying a favorable tax treatment, such favorable withholding tax enjoyed by an enterprise may be adjusted by the competent authorities in the future.

PRC REGULATORY OVERVIEW

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (Circular 698) issued by the State Administration of Taxation on 10 December 2009, where a foreign investor transfers the equity interests of a PRC resident enterprise indirectly via disposing the equity interests of a overseas holding company (“Indirect Transfer”) and such overseas holding company locates in a tax jurisdiction that: (i) is of an effective tax rate less than 12.5% or (ii) does not tax foreign incomes of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise of this Indirect Transfer. The PRC tax authority will examine the true nature of the Indirect Transfer, and if the tax authority considers that the foreign investor adopts abusive arrangement in order to avoid PRC tax, they will disregard the existence of the overseas holding company and re-characterize the Indirect Transfer and as a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at the rate of up to 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority is of the power to adjust the taxable income under this transaction reasonably.

- B. Pursuant to the Provisional Regulations of the PRC on Value-Added Tax 《中華人民共和國增值稅暫行條例》 and the implementation regulations as amended on 5 November 2008 by the State Council and implemented since 1 January 2009, unless stated otherwise, for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

FOREIGN EXCHANGE

Pursuant to the Regulations on the Administration of Foreign Exchange of the PRC 《中華人民共和國外匯管理條例》 as amended on 1 August 2008 by the State Council and implemented since 5 August 2008, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside the PRC, unless the prior approval of the SAFE is obtained. Under the Administration Rules of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) promulgated by the People’s Bank of China on 20 June 1996, foreign investment enterprises in the PRC generally may purchase foreign exchange without the approval or review of SAFE, if such purchases are trade and service related foreign exchange transactions and commercial documents evidencing these transactions are produced. They may also retain foreign exchange, subject to a cap approved by SAFE, under current account items.

PRC REGULATORY OVERVIEW

LAW OF WHOLLY FOREIGN-INVESTED ENTERPRISES

Pursuant to the Law of the PRC on Wholly Foreign-invested Enterprises 《中華人民共和國外資企業法》 as amended and implemented by the Standing Committee of the National People's Congress on 31 October 2000 and the Rules for the Implementation of the Law of the PRC on Wholly Foreign-invested Enterprises 《中華人民共和國外資企業法實施細則》 as amended and implemented by the State Council on 12 April 2001, a wholly foreign-invested enterprise shall retain a certain amount from its profits after income tax has been paid in accordance with PRC tax law as reserve funds, bonus and welfare funds for staff members. The amount retained for the reserve funds shall not be less than 10% of the profits (profits after income tax has been paid), and the withdrawal may stop when the accumulated amount withdrawn reaches 50% of the registered capital of the enterprise. The amount retained for bonus and welfare funds for staff members shall be determined by the wholly foreign-invested enterprise itself. No wholly foreign-invested enterprise may distribute its profits unless and until its deficits for the previous fiscal years have been recovered. Further, undistributed profits for the previous fiscal years may be distributed together with the distributable profits for the current fiscal year.

THE PRODUCT QUALITY LAW

Pursuant to the Product Quality Law of the PRC 《中華人民共和國產品質量法》 as amended by the Standing Committee of the National People's Congress on 8 July 2000 and implemented since 1 September 2000, a producer shall establish its own proper internal regulatory system for the management of product quality, strictly implementing position-oriented quality standards, quality responsibilities and relevant measures for their assessment. A producer should be responsible for the quality of the products produced by it. The quality of the products is required to pass standard examinations. The State has implemented a supervision and inspection system based on random inspection which aims at testing those products that may cause injury to the health or safety of the human body and properties, important industrial products that significantly affect the national economy and those products that have been reported by consumers or relevant organisations as defective in quality.

HISTORY AND BACKGROUND OF THE TARGET GROUP

HISTORY OF TARGET GROUP

The corporate history of the Target Group can be traced back to 1995 when 鄭州黃河電動車製造廠 (Zhengzhou Huanghe Electric Vehicle Manufacturing Factory) (“Huanghe Factory”) was established in Zhengzhou, Henan Province as an enterprise owned by the whole people (全民所有制企業). The establishment of the Target Group is marked by the establishment of Zhengzhou Siwei, the main operating subsidiary of the Target Group. The following is a brief corporate history of the Target Group.

HUANGHE FACTORY

Huanghe Factory was established in Zhengzhou, Henan Province on 2 June 1995 as an enterprise owned by the whole people (全民所有制企業) with a registered capital of RMB1 million. At the time of its establishment, Huanghe Factory was wholly-owned by 鄭州煤礦機械廠 (Zhengzhou Mining Machinery Factory) (“Zhengzhou Factory”) on behalf of the state in the PRC.

Pursuant to certain policy which encourages relevant enterprise to convert into the joint stock cooperative company promulgated by relevant authorities, including the Guiding Opinion Regarding Developing Joint Stock Co-operative Enterprises in Cities (《關於發展城市股份合作制企業的指導意見》) promulgated by the State Commission for Restructuring Economic Systems (國家經濟體制改革委員會) on 7 August 1997, Huanghe Factory was converted into a joint stock cooperative company with a registered capital of RMB1.05 million in 1999. As a result of the conversion, Huanghe Factory was owned as to 35.43% by Zhengzhou Factory, 5% by 鄭州黃河電動車製造廠工會 (Zhengzhou Huanghe Electric Vehicle Manufacturing Factory Labor Union) (“Huanghe Factory Union”) and 59.57% by several individuals. Such equity proportion was determined with reference to the assets valuation report. As confirmed by Zhengzhou Siwei, the aforesaid conversion was approved by the original owner of Huanghe Factory (i.e. Zhengzhou Factory) and 中國煤礦工程機械裝備集團公司 (China Coal Mining Engineering Equipment Group Corporation), the relevant institution appointed by the state to administer Huanghe Factory.

Around 2003, the relevant authorities promulgated some policies to promote the restructuring of the auxiliary business of the state-owned enterprise, including Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》) promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), Ministry of Finance (財政部), Ministry of Labour and Social Security (勞動和社會保障部), Ministry of Land and Resources (國土資源部), The People’s Bank of China (中國人民銀行), State Administration of Taxation (國家稅務總局), State Administration for Industry and Commerce (國家工商行政管理總局) and All China Federation of Labor (中華全國總工會) on 18 November 2002. Accordingly, for the purpose of restructuring of Huanghe Factory, on 25 January 2003, Zhengzhou Factory entered into an equity transfer agreement to dispose its entire

HISTORY AND BACKGROUND OF THE TARGET GROUP

equity interests in Huanghe Factory to certain employees of Zhengzhou Factory and Huanghe Factory at a total consideration of RMB372,000. The transfers had been approved by Finance Bureau of Henan Province and Coal Industry Bureau of Henan Province. The considerations of such transfers were determined with reference to the assets valuation report and the capital contribution to Huanghe Factory made by Zhengzhou Factory. On 1 March 2003, Huanghe Factory Union entered into several equity transfer agreements to dispose its entire equity interests in Huanghe Factory to certain employees of Zhengzhou Factory and Huanghe Factory at a total consideration of RMB52,500 with reference to the assets valuation report and the capital contribution to Huanghe Factory made by Huanghe Factory Union. At around the same time, several equity holders of Huanghe Factory entered into several equity transfer agreements to dispose their equity interests in Huanghe Factory to certain employees of Zhengzhou Factory and Huanghe Factory. As a result of the transfers, Huanghe Factory had 46 registered individual shareholders.

ZHENGZHOU SIWEI

On 9 June 2003, Zhengzhou Siwei was established when Huanghe Factory was converted into a domestic limited liability enterprise and changed its name to “鄭州四維機電設備製造有限公司”. At the time of its establishment, Zhengzhou Siwei had a registered capital of RMB5,250,000 and 46 registered individual shareholders. The PRC legal advisers to the Company are of the opinion that, as confirmed by Zhengzhou Siwei, Zhengzhou Siwei/Huanghe Factory had obtained all requisite approvals from the competent government authority for its conversion from an enterprise owned by the whole people to a domestic limited liability enterprise, and the relevant share transfers were legal, enforceable and valid under all material PRC laws and regulations.

On 8 August 2004, the equity holders of Zhengzhou Siwei passed a resolution pursuant to which transfers of equity interest in Zhengzhou Siwei in respect of a total of 25.5% equity interests in Zhengzhou Siwei at a total consideration of RMB1,340,500 with reference to the capital contribution to Zhengzhou Siwei made by the transferors were approved. As a result of the transfers, Zhengzhou Siwei had 22 registered individual shareholders, including Mr. Li Rubo, a proposed Director to be appointed upon completion of the Acquisition.

On 16 September 2004, the equity holders of Zhengzhou Siwei passed a resolution pursuant to which the registered capital of Zhengzhou Siwei was increased to RMB50,371,650 through capital injection by certain existing equity holders and a new equity holder of Zhengzhou Siwei. As a result, Zhengzhou Siwei had 23 registered individual shareholders, including Mr. Li Rubo.

HISTORY AND BACKGROUND OF THE TARGET GROUP

On 25 November 2005, former equity holder of 焦作四維液壓機械有限公司 (Jiaozuo Siwei Hydraulic Machinery Company Limited) (“Jiaozuo Siwei”) (formerly known as 焦作市博瑞克液壓機械有限公司) (Jiaozuo City Boruik Hydraulic Machinery Co., Ltd.) and Zhengzhou Siwei entered into an assets restructuring agreement whereby Zhengzhou Siwei agreed to acquire 100% equity interests in Jiaozuo Siwei which was valued at RMB30,565,300, in consideration of the issuance of 22.95% equity interests in Zhengzhou Siwei to the former equity holder of Jiaozuo Siwei. On 1 December and 2 December 2005, several equity holders of Zhengzhou Siwei entered into equity transfer agreements in respect of a total of 0.37% equity interests in Zhengzhou Siwei at a total consideration of RMB300,000 with reference to the capital contribution to Zhengzhou Siwei made by the transferors. On 9 December 2005, the equity holders of Zhengzhou Siwei passed a resolution pursuant to which the registered capital of Zhengzhou Siwei was increased to RMB80,936,950 and the aforesaid transfers of equity interest in Zhengzhou Siwei were approved. Subsequent to the increase in registered capital and transfers, Zhengzhou Siwei had 1 registered corporate shareholder and 23 registered individual shareholders, including Mr. Li Rubo.

On 19 December 2006, the former equity holder of Jiaozuo Siwei and Mr. Li Rubo entered into an equity transfer agreement in relation to transfer of 22.95% equity interests in Zhengzhou Siwei at a consideration of RMB16,500,000 with reference to the capital contribution to Zhengzhou Siwei made by the transferor. Between 13 March 2007 to 18 March 2007, several equity holders of Zhengzhou Siwei entered into equity transfer agreements in relation to transfer of 25.8% equity interests in Zhengzhou Siwei at a total consideration of RMB24,927,495.59 with reference to the capital contribution to Zhengzhou Siwei made by the transferor or at 20% premium to the capital contribution made by the transferors. As a result of the transfers, Zhengzhou Siwei had 6 registered individual shareholders, including Mr. Li Rubo.

On 20 March 2007, Mr. Wang Fu, one of the shareholders of Zhengzhou Siwei, entered into an equity transfer agreement with the Target whereby Mr. Wang Fu agreed to sell a 25% equity interest in Zhengzhou Siwei to the Target for a consideration of approximately RMB24.3 million. The consideration was determined with reference to the assessment value of Zhengzhou Siwei at the time of transfer. As a result of the transfer, Zhengzhou Siwei became a Sino-foreign equity joint venture on 20 April 2007 with 1 registered corporate shareholder and 6 registered individual shareholders, including Mr. Li Rubo. At the relevant time, Mr. Williams, Madam Liu Jie and non-PRC relatives of Mr. Williams collectively held the 25% interest in Zhengzhou Siwei through their interests in the Target and the Vendor.

HISTORY AND BACKGROUND OF THE TARGET GROUP

In connection the above-mentioned transfer of equity interests in Zhengzhou Siwei on 20 April 2007 (“April 2007 Transfer”), the PRC legal adviser to the Company confirmed that such transfer was subject to The Provisions Regarding Mergers and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (“M&A Rules”) and the M&A Rules have been duly complied with in all material respects. As (i) the consideration of such transfer was less than US\$100,000,000; (ii) such transfer did not constitute an acquisition by a domestic enterprise or natural person of its/his/her related domestic company using an offshore company which it/he/she established or controlled; and (iii) such transfer was not involved in any other issues which rendered such transfer to be subject to approval from Ministry of Commerce, the PRC legal adviser to the Company confirmed that approval from Ministry of Commerce was not required for such transfer and such transfer only required approval from the relevant local government authority in charge of commerce. Approval from Administrative Committee of the Zhengzhou High and New Technology Industries Development Zone (鄭州高新技術產業開發區管委會) has been obtained on 11 April 2007 for such transfer. Such transfer was not subject to the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (“Circular 75”). On the other hand, as Madam Liu Jie held part of the 25% interests in Zhengzhou through her beneficial interests in the Target and the Vendor held on trust by Mr. Williams, the PRC legal adviser to the Company advised that Madam Liu Jie, being a PRC resident, was required to register her overseas investments in the Target and MML in accordance with the requirement of the SAFE. However, no registration of her overseas investment in the Target and MML has been done due to the SAFE not having promulgated any specific rule for foreign exchange registration in respect of such case. Nevertheless, Zhengzhou Siwei confirmed that it has not paid the Target any bonus dividend upon the April 2007 Transfer, and Madam Liu Jie has transferred her beneficial interests in the Target and the Vendor to Mr. Williams, a non-PRC resident. Accordingly, the PRC legal adviser to the Company confirmed that the possibility to impose penalties on the Target and Zhengzhou Siwei by the relevant foreign exchange administration authorities as a result of the failure to complete the above-mentioned foreign exchange registration by Madam Liu Jie is low.

On 17 September 2007, all the then PRC individual equity holders of Zhengzhou Siwei entered into an equity transfer agreement with the Target whereby all the then PRC individual equity holders agreed to sell their entire 75% equity interest in Zhengzhou Siwei to the Target for a total consideration of approximately RMB72.8 million. The consideration was determined with reference to assessment value. As a result of the transfer, Zhengzhou Siwei became a wholly-owned foreign enterprise and the wholly-owned subsidiary of the Target on 24 September 2007. At the relevant time, through their respective interest in the Target and the Vendor, Zhengzhou Siwei was beneficially owned (i) as to 21.38% by Mr. Williams, Madam Liu Jie and non-PRC relatives of Mr. Williams; (ii) as to 52.95% by Mr. Li Rubo, his spouse and relatives; (iii) as to 19.67% by several management members of Zhengzhou Siwei; and (iv) as to 6% by three PRC individuals who are independent from the Company and any party set out in (i) to (iii) above.

HISTORY AND BACKGROUND OF THE TARGET GROUP

In connection the above-mentioned transfer of equity interests in Zhengzhou Siwei on 17 September 2007, the PRC legal adviser to the Company confirmed that, Zhengzhou Siwei was a foreign-funded enterprise immediately before such transfer. Accordingly, such transfer from PRC individuals of a foreign-funded enterprise to a foreign entity was not subject to the M&A Rules but was subject to the Provisions for the Alteration of Investors' Equities in Foreign-funded Enterprises (《外商投資企業投資者股權變更的若干規定》) and such provisions have been duly complied with in all material respects. On the other hand, as Madam Liu Jie, Mr. Li Rubo, his spouse and relatives, several management members of Zhengzhou Siwei and three PRC individuals (collectively, the "PRC Investors") held part of the entire interests in Zhengzhou Siwei through their beneficial interests in the Target and the Vendor held on trust by Mr. Williams, the PRC legal adviser to the Company advised that the PRC Investors, being PRC residents, were required to register their overseas investments in the Target and MML in accordance with Circular 75 or other relevant regulations. Nevertheless, Zhengzhou Siwei confirmed that it has not paid the Target any bonus dividend upon the April 2007 Transfer, and the PRC Investors have transferred their beneficial interests in the Target and the Vendor to Mr. Williams and Mr. Thompson, both non-PRC residents. Accordingly, the PRC legal adviser to the Company confirmed that the possibility to impose penalties on the Target and Zhengzhou Siwei by the relevant foreign exchange administration authorities as a result of the failure to complete the above-mentioned foreign exchange registration by the PRC Investors is low.

On 26 August 2009, the Target and Zhengzhou Siwei entered into an agreement whereby the Target agreed to inject RMB23,900,000 as registered capital of Zhengzhou Siwei by way of shareholder's loan in the amount of US\$3.5 million. As a result, the registered capital of Zhengzhou Siwei was increased to RMB104,836,950.

Zhengzhou Siwei was engaged in the manufacturing and sale of mining machinery.

TRUST ARRANGEMENT AMONG THE BENEFICIAL OWNERS OF MML

Mr. Williams and Mr. Li Rubo first met in 1997 through their mutual involvement in the nascent modular concrete products industry in China, which was the start of a long term personal friendship and business relationship of over 12 years. Since then, they have been working closely as business partners and investing together in several specialty equipment and mining companies.

Mr. Li Rubo, who has had a business relationship since 2002 with certain key management shareholders of Zhengzhou Siwei in 2002, first invested in Zhengzhou Siwei in 2004. In 2007, Mr. Williams expressed an interest to invest in Zhengzhou Siwei, which Mr. Li Rubo already had interest in, and after discussions between Mr. Williams and Mr. Li Rubo and their respective spouse and relatives, Mr. Williams and his spouse and family decided to invest in Zhengzhou Siwei, through the shareholding of MML and the Target in Zhengzhou Siwei.

HISTORY AND BACKGROUND OF THE TARGET GROUP

Prior to Mr. Williams and his family investing into Zhengzhou Siwei in 2007, Zhengzhou Siwei had multiple shareholders. It was a commercial consensus between Mr. Williams, his family and the then shareholders of Zhengzhou Siwei that Mr. Williams and his family members that they would invest in Zhengzhou Siwei (through the shareholding of MML and that of the Target in Zhengzhou Siwei) on the basis that all of them shall agree to a unanimous decision-making structure for consolidating the management and control of Zhengzhou Siwei to ensure administrative efficiency. In view of the experience and expertise of Mr. Williams in the heavy equipment industry, his overseas experience, his experience in business development and investment in general and his reputation, it was agreed and was the consensus between the parties that the management and control of Zhengzhou Siwei shall be vested in Mr. Williams who shall act and exercise all shareholders' rights and powers on behalf of all shareholders of Zhengzhou Siwei as a group, without the need for further consent from any beneficial owners of MML or Zhengzhou Siwei, and the voting rights vested in Mr. Williams shall be irrevocable unless with the prior consent of Mr. Williams.

Accordingly, when the Target acquired 25% interest in Zhengzhou Siwei on 20 April 2007, Mr. Williams on one part, and his certain family members and relatives on the other part, entered into certain declarations of trusts pursuant to which Mr. Williams declared and confirmed that he was holding part of his interests in Zhengzhou Siwei (including interest held by an entity controlled by him) on trust for his spouse and relatives.

In April and September 2007, Mr. Li Rubo on one part and certain of Mr. Li Rubo's spouse and relatives, certain management of Zhengzhou Siwei and three individuals under their own names on the other part, entered into certain declarations of trusts pursuant to which Mr. Li Rubo declared and confirmed that he was holding part of his interests in Zhengzhou Siwei on trust for his spouse and relatives, certain management of Zhengzhou Siwei and three individuals.

While the spouse and relatives of Mr. Li Rubo, certain management shareholders of Zhengzhou Siwei and three individual shareholders entrusted Mr. Li Rubo to exercise their shareholders' rights in Zhengzhou Siwei, Mr. Li Rubo in turn executed a power of attorney dated 21 September 2007, which is effective from 1 June 2007 to 31 May 2012, in favour of Mr. Williams to exercise the shareholder rights of himself and his family, along with the shareholder rights of those other persons for whom he served as fiduciary, on his and their behalf such rights vested in Mr. Li Rubo pursuant to the said declarations of trust entered into Mr. Li Rubo in April and September 2007.

Mr. Li Rubo's family, certain management shareholders of Zhengzhou Siwei and three individual shareholders of Zhengzhou Siwei entrusted Mr. Li Rubo because each of the above persons, all of whom were Chinese, was more comfortable (for reasons of business experience, culture and language) with Mr. Li Rubo serving as their fiduciary pursuant to the declarations of trusts signed with Mr. Li Rubo. Even though they were fully aware that Mr. Li Rubo would further entrust their interests together with the interests of Mr. Li Rubo and his family to Mr. Williams, it was the consensus between the parties that by arranging Mr. Li Rubo to act as their fiduciary, Mr. Li Rubo would be involved in the discussion of major decisions of Zhengzhou Siwei with Mr. Williams, which also was the case.

HISTORY AND BACKGROUND OF THE TARGET GROUP

Under such “two-level” arrangement, Mr. Li Rubo executed a power of attorney in favour of Mr. Williams to exercise the shareholder rights of himself and his family, along with the shareholder rights of those other persons for whom he served as fiduciary, on his and their behalf such rights vested in Mr. Li Rubo. The purpose of such arrangement is to achieve a unanimous decision-making structure for consolidating the management and control of Zhengzhou Siwei to ensure administrative efficiency. Each of the parties concerned was fully aware of and agreed to such arrangement, and no one has ever attempted to exercise his/her shareholders’ rights independently without the concurrence of the other beneficial owners of MML.

As advised by the Hong Kong Legal adviser to the Company, since the power of attorney dated 21 September 2007 executed by Mr. Li Rubo in favour of Mr. Williams was not exclusive by nature, Mr. Li Rubo did not lose his right to exercise the powers of his family, the certain management shareholders of Zhengzhou Siwei and the three shareholders of Zhengzhou Siwei who entrusted him to exercise their shareholders’ rights. Mr. Li Rubo was involved in the decision-making process of Zhengzhou Siwei and as fiduciary of his family, certain management shareholders of Zhengzhou Siwei and the three shareholders of Zhengzhou Siwei.

Whilst Mr. Williams made decisions on behalf of the shareholders of Zhengzhou Siwei and exercised all shareholders’ rights on their behalf and did not require their consent in doing so, Mr. Williams discussed with the managers, directors and other beneficial shareholders of Zhengzhou Siwei, in particular, Mr. Li Rubo, from time to time regarding significant decisions relating to Zhengzhou Siwei.

Save as disclosed above, there were no other agreements which trigger the signing of the said power of attorney. On 24 September 2007, the Target acquired the remaining 75% interest in Zhengzhou Siwei and Zhengzhou Siwei became a wholly-owned subsidiary of the Target.

Subsequent to the date of the Agreement, on 18 March 2010, Mr. Williams, with the consent of Mr. Li Rubo and his certain family members and relatives (“Li Family”), executed a deed of transfer to transfer the legal and beneficial interests of 52.95% in MML held by Mr. Williams on trust for and on behalf of the Li Family, to Mr. Thompson, the son-in-law of Mr. Li Rubo, at a total consideration of US\$1 as gift to Mr. Thompson. On the same date, Mr. Williams, with the consent of the management of Zhengzhou Siwei and the three individuals who are independent from the other shareholders of MML, executed a deed of transfer to transfer the legal and beneficial interests of 25.67% in MML held by Mr. Williams on trust for them to Mr. Thompson at a total consideration of US\$38,505,000. The consideration was determined with reference to the percentage of their beneficial interests in Zhengzhou Siwei and the valuation of Zhengzhou Siwei of approximately US\$150 million at the time of the transfer. On 26 March 2010, Mr. Thompson executed a power of attorney pursuant to which he entrusted Mr. William to exercise all rights represented by a total of 78.63% legal and beneficial interests in MML. As advised by the Hong Kong legal advisers of the Company, since the power of attorney dated 26 March 2010 executed by Mr. Thompson in favour of Mr. Williams was not exclusive by nature, Mr. Thompson did not lose his right to exercise his powers to exercise his shareholders’ rights. It was agreed and was the consensus between Mr. Thompson and Mr. Williams that Mr. Williams shall act and exercise all shareholder’s rights and powers on behalf of Mr. Thompson, without the need for further consent from any beneficial owners of MML including Mr. Thompson, and the voting rights vested in Mr. Williams shall be irrevocable unless with the prior consent of Mr. Williams. The above-mentioned transfers of interests in the Target to Mr. Thompson took effect on 29 March 2010 and Mr. Thompson becomes the beneficial owner of 78.63% of MML on himself without holding such interests of MML on trust for any person since then. The said transfers took place (i) for the purpose of Mr. Li’s estate planning; and (ii) as the Li Family, the management of Zhengzhou Siwei and the three individuals do not intend to have any interests in a company which would be listed in Hong Kong. There were no other agreements which triggered the said transfers.

HISTORY AND BACKGROUND OF THE TARGET GROUP

As a result of the above trust arrangement among the beneficial owners of MML, the management and control of the Target Group was consolidated jointly in the hands of (1) a block of shareholders comprising of Mr. Williams and his family (who are considered as parties acting in concert under the Takeovers Code); and (2) another block of shareholders comprising of Mr. Li Rubo and his family (and subsequently Mr. Thompson) (who are considered as parties acting in concert under the Takeovers Code), while the beneficial interests in Zhengzhou Siwei were held by Mr. Williams upon trust via (a) the Target's shareholding in Zhengzhou Siwei; (b) MML's shareholding in the Target; and (c) Mr. Williams' shareholding in MML since 20 April 2007.

Apart from the SAFE registration requirement in relation to the April 2007 Transfer and the Circular 75 requirement in relation to the September 2007 as disclosed above, the trust arrangement does not violate any PRC laws.

ACQUISITION AND DISPOSAL OF JIAOZUO SIWEI BY ZHENGZHOU SIWEI

On 25 November 2005, former equity holder of Jiaozuo Siwei and Zhengzhou Siwei entered into an assets restructuring agreement whereby Zhengzhou Siwei agreed to acquire 100% equity interests in Jiaozuo Siwei, a company which is principally engaged in the manufacturing and sale of industrial tanks, by the issuance of 22.95% equity interests in Zhengzhou Siwei to the former equity holder of Jiaozuo Siwei. Jiaozuo Siwei, which was valued at RMB30,565,000, was taken into account as the capital injection for the 22.95% equity interests in Zhengzhou Siwei from the former equity holder of Jiaozuo Siwei.

For the purpose of restructuring of the Target Group, on 14 September 2007, Zhengzhou Siwei disposed of its 100% equity interest in Jiaozuo Siwei to 鄭州四維機電設備投資有限公司 (Zhengzhou Siwei Mechanical & Electrical Equipment Investment Company Limited) ("Zhengzhou Siwei M&E Investment") at nil consideration. According to the audited accounts of Jiaozuo Siwei prepared in accordance with the generally accepted accounting principles in the PRC, the audited loss after tax for year 2006 was approximately RMB1.8 million. The audited total assets, total liabilities and net assets of Jiaozuo Siwei as at 31 December 2006 were approximately RMB70.2 million, RMB43.5 million and RMB26.6 million respectively. The nil consideration was determined after taking into account the continuing losses of Jiaozuo Siwei. As a result of the disposal, the Target Group suffered a loss of RMB30,565,000. Mr. Wang Fu, a director and a former substantial shareholder of Zhengzhou Siwei, held equity interests in Zhengzhou Siwei M&E Investment from 30 May 2007 to 25 September 2009. Zhengzhou Siwei M&E Investment held approximately 54.6% equity interests in Zhengzhou Siwei M&E Sales as at the Latest Practicable Date.

During the years ended 31 December 2007, 2008 and 2009, Jiaozuo Siwei provided steel processing and cutting services of RMB8,293,000, RMB12,613,000 and RMB2,200,000 respectively to Zhengzhou Siwei at which is reference to the prevailing market prices. The steel processing and cutting services are charged base on the weight of the products processed by Jiaozuo Siwei. Due to better quality of services performed by Jiaozuo Siwei the average charge is approximately 2% to 4% higher than other independent suppliers who provide similar services. Zhengzhou Siwei intends to continue to obtain such services from Jiaozuo Siwei which was, as at the Latest Practicable Date, an independent third party of the Enlarged Group. In addition, Jiaozuo Siwei sold certain production equipments of RMB15,128,000 during the year ended 31 December 2007 to Zhengzhou Siwei. The selling price was based on a valuation report prepared by an independent valuer. No other production equipment was sold to Zhengzhou Siwei during 2008 and 2009.

HISTORY AND BACKGROUND OF THE TARGET GROUP

ACQUISITION AND DISPOSAL OF BAOJI SIWEI BY ZHENGZHOU SIWEI

On 4 March 2005, Zhengzhou Siwei established a domestic enterprise, 寶雞星源機電設備製造有限公司 (Baoji Xingyuan Mechanical & Electrical Equipment Manufacturing Company Limited) (formerly known as 寶雞四維煤機製造有限公司 (Baoji Siwei Mining Machinery Company Limited)) (“Baoji Siwei”) with IMM and Shaanxi North Dynamic Co., Ltd (陝西北方動力有限責任公司). Zhengzhou Siwei held 20% equity interest in Baoji Siwei. Baoji Siwei is principally engaged in the manufacturing and sale of mining machinery and equipment.

For the purpose of restructuring of the Target Group, on 14 September 2007, Zhengzhou Siwei entered into an equity transfer agreement with Zhengzhou Siwei M&E Investment whereby Zhengzhou Siwei transferred its 12.5% equity interest in Baoji Siwei to Zhengzhou Siwei M&E Investment at a consideration of RMB1,875,000. According to the articles of association of Baoji Siwei dated 9 October 2007 and an agreement dated 30 November 2007 between Zhengzhou Siwei and Shaanxi North Dynamic Co. Ltd, Zhengzhou Siwei transferred its remaining 7.5% equity interest in Baoji Siwei to Shaanxi North Dynamic Co., Ltd, an independent third party, at a consideration of RMB1,125,000, which was settled by offsetting the trade payables to Baoji Siwei. As the considerations represented the investment cost of the 20% equity interest in Baoji Siwei, Zhengzhou Siwei experienced no gain or loss arising from the disposals of 20% equity interests in Baoji Siwei.

THE TARGET

The Target is an investment holding company incorporated in Hong Kong on 22 February 2007. Its sole investment is the investment in Zhengzhou Siwei which was financed by loans from the Vendor and an independent third party creditor. The Target has no other operation.

Loan from the Vendor to the Target

For the purpose of acquisition of Zhengzhou Siwei by the Target in 2007, the Target has obtained an interest-free loan from the Vendor in the amount of approximately US\$2,950,000 (equivalent to approximately HK\$23.0 million). Pursuant to the Agreement (as amended by a supplemental deed dated 31 March 2010 entered into between the Purchaser and the Vendor), upon Completion, such loan shall be (i) waived by the Vendor or; (ii) capitalised by way of the Target issuing additional share(s) of the Target to the order of the Vendor who shall procure such additional share(s) of the Target to be (i) issued in the name of the Purchaser or its nominee; or (ii) if issued to the Vendor, be transferred to the Purchaser or its nominee, simultaneously with the Sale Share. The said loan from the Vendor was financed by personal advances to the Vendor from Mr. Williams, Mr. Li Rubo and Mr. Williams’ relatives, which were interest-free and repayable on demand. As confirmed by the Vendor, there was no written agreement in respect of (i) the loan between the Target and the Vendor; and (ii) the advances to the Vendor from Mr. Williams, Mr. Li Rubo and Mr. Williams’ relatives. Further, no covenants, restrictions, security and undertakings was provided (i) by the Target to the Vendor; and (ii) by the Vendor to Mr. Williams, Mr. Li Rubo and Mr. Williams’ relatives. In respect of the personal loan from Mr. Li Rubo to the Vendor, Mr. Li Rubo has obtained loans in the amount of US\$2.565 million (equivalent to approximately HK\$19.9 million) from IMM on 12 February 2007.

HISTORY AND BACKGROUND OF THE TARGET GROUP

Loans from IMM to the Target

For the purpose of acquisition of Zhengzhou Siwei by the Target in 2007, the Target has also borrowed US\$10,193,000 and US\$7,200,000 from IMM, an independent third party creditor, in December 2007 and June 2008 respectively. IMM extended such loans in contemplation of the proposed acquisition by IMM of the Target at the time of advance of the loans. No agreement in relation to the proposed acquisition by IMM of the Target had been entered into between IMM and the Target.

The maturity date of the said loan of US\$10,193,000 is upon the earlier of (i) ninety (90) business days of delivery of written notice by IMM to the Target, (ii) the fifth anniversary of the date of the promissory note dated 19 December 2007 between the Target and IMM, or (iii) a Substantial Liquidity Event (as defined in the memorandum and association of IMM) with respect to the common shares of IMM.

The maturity date of the other loan of US\$7,200,000 is upon the earlier of (i) ten (10) business days of delivery of written notice by IMM to the Target, (ii) the fifth anniversary of the date of the promissory note dated 13 June 2008 between the Target and IMM, or (iii) a Substantial Liquidity Event with respect to the common shares of IMM.

To the best knowledge of the Directors, the Target has not received any written notice from IMM demanding repayment of the said loans.

“**Substantial Liquidity Event**”, as defined in the articles of association of IMM at the relevant time, means in any one or series of related transactions (i) any sale or transfer of all or a material amount of IMM’s ordinary shares, business, assets, properties or rights (other than providing liens or security interests in the IMM’s properties, assets or rights); (ii) any merger, combination, consolidation or similar business combination to which the IMM is a party (other than a merger or similar transaction (x) with a wholly-owned subsidiary of IMM or a corporate parent of IMM that owns at least 90% of the voting shares of the company, or (y) effected exclusively for the purpose of changing the domicile of IMM); (iii) any recapitalization, reclassification, extraordinary distribution or extraordinary dividend or similar action by IMM; or (iv) any other similar transaction or event that provides cash or other consideration or value to the shareholders of IMM or has effects, purposes or results, directly or indirectly, similar to the transactions described in point (i), (ii) and (iii) aforesaid.

The documentation in relation to the above loans from IMM to the Target are governed by New York law. Given that the reference to “**Substantial Liquidity Event**” is deleted from the current articles of association of IMM which took effect immediately upon the admission and listing of its ordinary shares on the Stock Exchange on 10 February 2010, the Directors and the legal advisers to the Company as to New York law, Wilmer Culter Pickering Hale and Dorr LLP (“**WilmerHale**”), are of the opinion that the “Substantial Liquidity Event” ceased to have any further validity upon the effective amendment of IMM’s articles of association to delete the definition of “Substantial Liquidity Event” and therefore has no effect on the Acquisition.

The above-mentioned loans from IMM to the Target were secured by (i) a share pledge of all the issued shares of the Target in favour of IMM, (ii) a pledge of all shares of IMM owned by Mr. Li Rubo, (iii) a pledge of all shares of IMM owned by Mr. Williams, (iv) a pledge of all shares of IMM owned by Williams Realty Co, LLC, and (v) a first floating charge of all the undertaking, property, assets and rights of the Target.

HISTORY AND BACKGROUND OF THE TARGET GROUP

Such loans from IMM bear interest at 8% per annum and compound annually. As at 31 December 2009, the interests accrued in the amount of approximately US\$2,564,000 (equivalent to approximately HK\$20.0 million). On 31 December 2009, as part of the reorganization of IMM, such loans from IMM together with interest in a total sum of approximately US\$19.9 million (equivalent to approximately HK\$155.2 million) were transferred and assigned to TJCC Holdings Ltd., a controlling shareholder of IMM, to set off a balance due from IMM to TJCC Holdings Ltd. of the same amount pursuant to an assignment and assumption agreement. Interest in the amount of approximately US\$711,000 (equivalent to approximately HK\$5.5 million) was further accrued since 1 January 2010 and up to the Latest Practicable Date. The Company understand from the Vendor that partial repayment of such loans due to TJCC Holdings Ltd. in the amount of approximately US\$3,437,000 (equivalent to approximately HK\$26.8 million) and partial repayment of the interests accrued in the amount of approximately US\$3,011,000 (equivalent to approximately HK\$23.5 million) were made to TJCC Holdings Ltd. in April 2010 (by offsetting the dividend payment from IMM to Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC) by bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC. As at the Latest Practicable Date, the total outstanding principal of the loan and interest accrued due from the Target to TJCC Holdings Ltd. were approximately US\$14.0 million and US\$180,000 (equivalent to approximately HK\$109.2 million and HK\$1.4 million respectively). As at the Latest Practicable Date, the outstanding principal amount of the bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC was approximately US\$6.4 million (equivalent to approximately HK\$49.9 million) bearing interest at 8% per annum and compound annually. The outstanding accrued interests of the bridge loans was approximately US\$83,000 (equivalent to approximately HK\$647,000) as at the Latest Practicable Date. The Vendor has pledged its interest in the Sale Share to TJCC Holdings Ltd. as securing for repayment of the said debt. The Company intends to conduct fund raising exercise to raise the amount necessary to repay the bridge loans from Mr. Williams and Mr. Li Rubo and Williams Realty Co, LLC and/or the remaining/outstanding amount due to TJCC Holdings Ltd. Accordingly, all securities and share pledges given in favour of TJCC Holdings Ltd. is expected to be discharged upon completion of the fund raising exercise. It is expected that upon the Completion there would not be any securities or pledges provided by the Vendor and/or its connected persons or their respective associates such that the Company would be financially independent from the Vendor.

PRIVATE ARRANGEMENTS AMONG MR. LI RUBO, MR. WILLIAMS AND IMM

On 16 May 2006, each of Mr. Li Rubo, Williams Realty Co, LLC and Mr. Williams (collectively, “Subscribers”) entered into a consultant subscription agreement (collectively, “Consultant Subscription Agreements”) with IMM in connection with the acquisition of even date therewith by The Resolute Fund through IMM of Jixi Coal Mining Machinery Co., Ltd and Jiamusi Coal Mining Machinery Co., Ltd.

The Consultant Subscription Agreements, which are governed by New York law, established, inter alia, certain obligations on the part of the Subscribers during the “Restricted Period”, a period defined in the Consultant Subscription Agreements (as amended by a letter agreement dated 4 December 2009 entered into between, among others, the Subscribers and IMM) as five years from the date of the Consultant Subscription Agreements, i.e. starting from 16 May 2006 and up to 16 May 2011.

HISTORY AND BACKGROUND OF THE TARGET GROUP

Obligations of the Subscribers during the Restricted Period

The Subscribers are obligated during the Restricted Period under the Consultant Subscription Agreements to refer to IMM on an exclusive basis any mature opportunities, solicitations or possibilities to acquire, invest, venture or participate in any China coal mining business but excluding the hydraulic roof support industry and the “Designated MML Investments”. The Designated MML Investments are defined in the Consultant Subscription Agreements as “the Zhengzhou-Siwei, Baoji-Siwei and Beijing-Siwei businesses and their subsidiaries and corporate affiliates, together with any expansion thereof or change thereto”.

The Subscribers are further obligated during the Restricted Period (i) not to, without the express written approval of IMM, directly or indirectly own, manage, operate, control, invest or acquire an interest in any business in competition with IMM (but excluding the Designated MML Investments and any investment possibilities referred by a Subscriber to IMM in which is the subject of an RFO or RFR (as defined below) and which IMM declines to accept; (ii) not to recruit or solicit employees from IMM; (iii) not to disclose any confidential information of IMM (after as well as during the Restricted Period); (iv) not to defame or disparage IMM or its subsidiaries, officers or directors (after as well as during the Restricted Period); (v) cooperate with IMM in the defense of any claims against IMM; and (vi) in the case if Mr. Li Rubo, to register his shares in IMM with the State Administration of Foreign Exchange with the relevant authorities of IMM’s China subsidiaries should such subsidiaries encounter a banking problem for which registration by Mr. Li Rubo of his shares in IMM was required for resolution of the problem. These obligations remain in effect until May 16, 2011 and, with respect to the non-disclosure of confidential information and non-defamation and non-disparagement of IMM, indefinitely beyond such date.

RFO/RFR Notice obligations

The Consultant Subscription Agreements also obligated each of the Subscribers during the Restricted Period to take all actions necessary or desirable to, and to cause MML, to provide IMM with a right of first offer (“RFO”) notice and a right of first refusal (“RFR”) notice with respect to the Designated MML Investment.

HISTORY AND BACKGROUND OF THE TARGET GROUP

While the Consultant Subscription Agreements do not specify a time frame within which a RFO notice (“RFO Notice”) specifying the price and other terms and conditions must be provided by MML to IMM, IMM was allowed 90 days after the delivery of RFO Notice by the Subscriber(s) to decide whether IMM shall accept the RFO. If IMM declines to exercise the RFO within such 90-day period, MML may offer such opportunity to a third party within the following six-month period. If the negotiation between MML and a third party results in a binding offer from such third party, the Subscriber(s) shall give notice (“RFR Notice”) to IMM setting out the proposed commercial terms between MML and such third party. Within 10 days of receipt of an RFR Notice from the Subscribers, IMM may give notice (“RFR Acceptance Notice”) to the Subscriber(s) which shall contain commercial terms of at least 20% higher than those set out in the RFR Notice. Upon delivery of the RFR Acceptance Notice, the Subscriber(s) and MML shall enter into good faith negotiations with a view to enter into definitive agreements in accordance with the terms set out in the RFR Acceptance Notice.

Completion of the Agreement was conditional upon satisfaction of various conditions, including the obtaining by MML of all consents required for implementation or completion of the Agreement. In order to satisfy such condition with respect to IMM’s RFO and RFR concerning Zhengzhou Siwei, on 4 December 2009, Mr. Li Rubo and Mr. Williams, on behalf of the Subscribers as a whole, delivered an RFO Notice dated 3 December 2009 to IMM specifying that an offer had been received for Zhengzhou Siwei. The legal advisers to the Company as to New York law, WilmerHale, advised that although the RFO Notice was delivered after execution of the Agreement, the condition that all consents required for implementation or completion be obtained before the Agreement could be completed signified that the late RFO Notice did not constitute a breach of the Consultant Subscription Agreements, and accordingly the late delivery of the RFO Notice did not constitute a breach of the Consultant Subscription Agreements.

IMM responded on 31 March 2010, which is more than 90 days after delivery of the RFO Notice, in which IMM expressly waived both its RFO and RFR rights with respect to the offer for Zhengzhou Siwei as set out in the said RFO Notice dated 3 December 2009, provided that the waiver shall be null and void and the said RFO and RFR shall remain in full force and effect if (i) the Acquisition does not close by 30 June 2010, (ii) the equity valuation of the Target and the Company as contemplated under the Acquisition and related transactions shall be less than US\$150 million and US\$15 million, on a fully diluted basis, respectively; or (iii) all amounts owed to TJCC Holdings Ltd. IMM’s parent company, by the Target are not repaid in full prior to or concurrent with the closing of the Acquisition and related transactions.

HISTORY AND BACKGROUND OF THE TARGET GROUP

WilmerHale advised that, as IMM did not reply until after the 90-day period as specified under the Consultant Subscription Agreements had expired, IMM has forfeited its RFO right and therefore RFR rights with respect to Zhengzhou Siwei. As a consequence of the failure of IMM to act upon its RFO notice within the contractual 90-day period, IMM forfeited its right to an RFR notice. WilmerHale is therefore of the opinion that the Subscribers have complied with all relevant procedural requirements relating to compliance with IMM's RFR and RFO rights and IMM no longer has continuing rights (including RFO and RFR rights) with respect to Zhengzhou Siwei as one of the Designated MML Investments and no legal challenge by IMM with respect thereto would be upheld.

Based on the above, the Directors of the Company consider that, none of conditions (i), (ii) and (iii) set out in IMM's reply dated 31 March 2010 remain in effect.

As the Acquisition was covered in the RFO Notice delivered to IMM on 4 December 2009, WilmerHale advised that the Subscribers are not obligated to deliver a fresh RFO Notice or RFR Notice to IMM with respect to the Acquisition. Furthermore, as the Acquisition was covered in the said RFO Notice and IMM forfeited its RFO rights and therefore its RFR rights with respect to the Zhengzhou Siwei, the Subscribers are not obligated to provide IMM, or to cause ERA to provide IMM, with any future RFR Notice or RFO Notice during the Restricted Period after the completion of the Acquisition.

WilmerHale also noted that, IMM has previously been notified that MML disposed of its interests in Baoji-Siwei, being of the other Designated MML Investments, and MML did not have an equity interest in Beijing Siwei, being one of the other two Designated MML Investments. As such, those two Designated MML investments no longer exist and IMM has no continuing rights with respect to either of them. While the Restricted Period with respect to the Designated MML Investments remains in effect until 16 May 2011, it no longer has any effect because MML has complied with the RFO/RFR procedures specified in the Consultant Subscription Agreements or equivalents thereto satisfactory to IMM to notify IMM of its rights with respect to the disposition of the Designated MML Investments and IMM chose not to exercise its rights under the Consultant Subscription Agreements as amended. WilmerHale is therefore of the opinion that the procedural requirements with respect to the disposition by MML of its interests in the Designated MML Investments were fulfilled by MML and IMM no longer has continuing rights with respect to the Designated MML Investments, and that the Subscribers have not breached any of their obligations under the Consultant Subscription Agreements.

The Directors confirm that the Company and the Target Group are not parties to the Consultant Subscription Agreements nor the above private arrangements between the Subscribers and IMM. Accordingly, the Directors are of the view that there is no impact on the Company and the Target Group. Also, the Directors believe, based on the advice of WilmerHale, that the Acquisition is no longer subject to any consents from IMM and IMM no longer has continuing rights (including RFO and RFR rights) with respect to Zhengzhou Siwei. Notwithstanding the above, there is no assurance that the Enlarged Group will not become involved in any legal disputes and/or litigation with IMM in relation to the RFO and the RFR. See also paragraph headed "The Enlarged Group may be involved in legal disputes and/or litigation with IMM in relation to the RFO and RFR." in the "Risk Factors" section of this circular.

BUSINESS OF THE TARGET GROUP

OVERVIEW

The Target Group is one of leading manufacturers of hydraulic roof supports in the PRC. According to China National Coal Machinery Industry Association, Zhengzhou Siwei was the third largest hydraulic roof support manufacturers among members of the China National Coal Machinery Industry Association in the PRC with market share in respect of sales of hydraulic roof support machinery of approximately 9.0% by units sold in 2008. The Target Group, as at 31 December 2009, has an estimated annual production capacity of around 6,486 units. It manufactures four major types of roof supports (two-leg support, four-leg chock support, sub-level caving powered shield and face-end hydraulic roof supports) that have working resistance ranging from 1,800 KN to 25,600 KN and clearances ranging from 1.4 meters to 6.0 meters. Zhengzhou Siwei has set up a team of professionals who is experienced in mining industry and can assist customers to conduct the evaluation on the coal mine based on the geological specifications provided by the customers. Such evaluation can help Zhengzhou Siwei to determine which type of hydraulic roof support system is suitable for the coal mine. It also helps the customer to determine what other mining equipments can be used for the coal mine. For roof support manufacturers not setting up such team, they have to engage other companies or institutes to perform such work.

Zhengzhou Siwei has experienced rapid growth for the last several years. Revenue has been more than doubled in two years, growing from RMB563.5 million in 2007 to RMB1,236.2 million in 2009, with a CAGR of 48.1%.

COMPETITIVE STRENGTHS

The Directors believe that the Target Group's historical success and future prospects are underpinned by a combination of competitive strengths as detailed below:

Well positioned to benefit from substantial development opportunities for coal mining equipment industry in the PRC supported by expected sustainable growth and modernization of PRC coal mining industry

According to the BP Statistical Review 2009, China has the world's third largest proven coal reserves and is the world's largest coal producing and consuming country. It is expected to continue to invest heavily in coal production. In accordance with the Eleventh Five-Year Plan, the requirements for production technologies in the coal industry will strengthen the demand of coal mining machinery products in China.

BUSINESS OF THE TARGET GROUP

Pursuant to Several Opinions of the State Council Regarding the Promotion of Sound Development of the Coal Industry (《國務院關於促進煤炭工業健康發展的若干意見》), the PRC government encourages large-scale coal enterprises to acquire and reconstruct small and medium-sized coal mines. The PRC government also encourages small and medium-sized coal mines with reliable resource reserves to jointly reconstruct through assets reorganizations. Small coal mines which are not laid out rationally, or not in compliance with safety standards or environmental protection requirements or resource-wasting shall be further phased out. The Directors are of the view that the industry rationalisation as encouraged by the PRC government will have positive impact on the Target Group's business because after the industry rationalisation, PRC coal mines will become larger in size with more resources to purchase coal mining equipment to promote productivity and safety. This will drive the demand for the Target Group's products.

The sustainability of the growth of China's coal mining industry combined with the coal mining industry's emphasis on increasing the productivity, safety and automation of the coal mining industry create substantial opportunities for equipment manufacturers. The Directors believe this acquisition of the Target Group would present a good opportunity for the Company to revitalize and broaden its income stream by entering into the coal mining equipment business.

Experienced management team

The management team of the Target Group combines extensive international experience with a deep local knowledge in China and China's coal mining industry. Its Chairman and other six top executives are experienced in China's coal mining industry while its president/chief executive officer and chief operating officer each has over 12 years working experience with multi-national corporations in various senior management positions. The Directors believe that the management team of the Target Group has the vision and in-depth industry knowledge and experience to continue to take advantage of market opportunities and formulate effective business strategies for future business growth.

Well established relationships with certain domestic coal producers and extensive and comprehensive distribution and service network

The Target Group has established solid relationships with certain domestic coal producers in China. Its clientele consists of around 50 coal producers in China in 13 provinces. Its relationship with its top five customers have ranged from one to four years and two to five years in the year 2008 and 2009 respectively. Solid relationships with certain domestic coal producers enable the Target Group to steadily increase its sales, including sales of both new and replacement equipment, and enhance its competitive position.

BUSINESS OF THE TARGET GROUP

Selling the Target Group's product with the assistance of Zhengzhou Siwei M&E Sales and leveraging on its distribution and service network provides the Target Group with broad and effective sales and marketing coverage on a cost-effective basis. Further details regarding the distribution network of Zhengzhou Siwei M&E Sales are set out below. The Target Group also works closely with Zhengzhou Siwei M&E Sales in providing aftermarket services, including the selling of spare parts and other associated complimentary services. The Target Group believes that, through the provision of aftermarket services, customers relationships can be enhanced, which can facilitate the Target Group in generating further business opportunities.

High standards of reliability, safety and efficiency

The Target Group applies stringent quality management procedures during the production process and has invested in advanced testing equipment to ensure product quality and safety prior to delivery to customers. It has obtained the ISO9001:2000 "Quality Management System Certificate" for the quality management system in respect of the design development, production and service of the fittings and the hydraulic roof supports. In addition, to the best knowledge of the Directors, there has been no accident resulting from usage of products of the Target Group during the Track Record Period. Also, to the best knowledge of the Directors, there have been no material product claims during the Track Record Period. Its ability to provide products of high quality, efficiency and safety enables the Target Group to secure its customers' confidence in its products and enhances the reputation thereof.

Strong research and development capability

The demand placed on coal mining equipment engineering and design specifications is continuously evolving and advancing, driven by an increasing market demand for coal and government policies requiring the safe and efficient exploitation of more challenging coal deposits. The ability of the Target Group to develop products to meet such demand is a key factor in its success. It has more than 70 technical personnel, including researchers and engineering technicians, working in all fields relating to coal mining equipment such as mining engineering, mechanical design and manufacturing, electrical engineering and electronics, computer science, mechanics, hydraulics and material science. In addition, its strong research and development capability is supported by its comprehensive processing capability, which enables the Target Group to custom design and manufacture products tailored to the various needs of its customers. The Target Group currently holds 21 patents for its products designed by its engineers with 29 pending approval. Details of the Target Group's research and development expenses during the Track Record Period are set out in the sub-section headed "Factors affecting Zhengzhou Siwei's results of operation and financial condition" in the section headed "Financial Information of the Target Group" of this circular.

BUSINESS OF THE TARGET GROUP

BUSINESS STRATEGIES

In order to further enhance our competitive position, the Target Group intends to pursue the following business strategies:

Capture aftermarket sales opportunity

As mining equipment usage increases in the PRC and existing customers' equipment ages, demand for spare parts and spare replacement equipment will grow. Moreover, as sales of spare parts have historically generated higher gross profit margins than mining equipment, as disclosed in the section headed "Financial Information of the Target Group" of this circular, the Target Group believes there is room to grow its sales of spare parts business.

Working closely with Zhengzhou Siwei M&E Sales to utilize their marketing experience and knowledge, the Target Group intends to increase its aftermarket sales of spare parts by leveraging its extensive customer base and strong brand name, allocating more production capacity to the production of spare parts, and continuing to improve its customer service quality.

Further enhance research and development capability

The Target Group believes its research and development capability is the key to its success. In longwall mining operations, it is critical that all equipment used in the working face, including hydraulic roof supports, are compatible with each other and work seamlessly as a whole and efficient system. In order to achieve this, the Target Group intends to increase the level of cooperation and interaction among its research and development team, other research institutes and other coal mining equipment/components manufacturer(s).

The Target Group intends to continue to upgrade its research facilities and purchase additional advanced equipment and software as needed to enhance its research and development capability. It also intends to continue to attract and retain talented individuals in the industry to meet the needs of its expansion through the use of competitive remuneration packages.

Continue to generate further business opportunities

The Target Group intends to leverage on the marketing skills and the distribution and service network of Zhengzhou Siwei M&E Sales in the PRC to continue to enhance sales coverage and generate further business opportunities. The directors of Zhengzhou Siwei understand that Zhengzhou Siwei M&E Sales anticipates to undertake a restructuring and that existing management and employees of Zhengzhou Siwei M&E Sales will form separate sales companies (which are not to be subsidiaries of Zhengzhou Siwei M&E Sales) by stages to cover business in different locations in the PRC. Due to the sound business relationships with Zhengzhou Siwei M&E Sales in the past, the directors of Zhengzhou Siwei expect the provision of sales-related assistance by Zhengzhou Siwei M&E Sales and/or such sales companies to be formed by management and employees of Zhengzhou Siwei M&E Sales will continue after Completion. Further details regarding the distribution and service network of Zhengzhou Siwei M&E Sales are set out in the section headed "Sales and marketing" below.

BUSINESS OF THE TARGET GROUP

Expand its production capacity and consolidate its production facilities

The Target Group expects the demand for hydraulic roof supports will continue to grow as a result of increasing demand for coal fueled by China's economic growth, increasing mechanization of mines, the increasing size and complexity of mining operations, and the policy of the PRC government to encourage large-scale coal enterprises to acquire and reconstruct small and medium-sized coal mines. Due to the Target Group's historic growth, its production facilities have had to expand to keep up with sales. Capacity is still being increased regularly, though the Target Group accomplishes this through a blend of in-house manufacturing and outsourcing to guard against over-capacity. To capture the opportunities presented by strong demand for its products, the Target Group intends to continue to expand its production capacity and to increase and improve its production efficiency. The Target Group plans to relocate its two existing production facilities located in northern side of Wutong Street, western side of Yinping Road South and Nanyangzhai Warehouse, 9 Xinglongpu Road to southern side of Guanggu Road, Guangwu Town, Xingyang by end 2010. Subject to business and financial review by the Directors and the Proposed Directors and availability of financial resources of the Enlarged Group after Completion, the Target Group also plans to consolidate its one existing production facility located in Jinsuo Road into southern side of Guanggu Road, Guangwu Town, Xingyang between June 2011 and 2012. After relocation and consolidation by end 2012, the four existing production facilities (including one currently located in southern side of Guanggu Road) will be consolidated into one plant and production efficiency can be improved. In order to achieve the production facilities relocation and consolidation, the Target Group intends to acquire additional land adjacent to the existing production facilities located in Guanggu Road South, Guangwu Town, Xingyang, to construct new plant, and to buy new equipment for upgrading existing plant and equipment. The total capital expenditures related to the production facilities relocation and consolidation are estimated to be approximately RMB395.3 million (equivalent to approximately HK\$449.2 million) through 31 December 2012 which is expected to be financed by a combination of placement proceeds of approximately HK\$136 million (equivalent to approximately RMB120 million), as detailed in the sub-section headed "Placing" in the "Letter from the Board" of this circular, and the Target Group's bank borrowings and internal resources. As at 30 April 2010, bank borrowings have been raised by the Target Group of which approximately RMB44 million was used for this purpose.

PRODUCTS

The Target Group manufactures hydraulic roof supports at its facilities in Zhengzhou, Henan Province. It is one of the Chinese hydraulic roof support suppliers that can both design and produce hydraulic roof supports for longwall mining operations.

In longwall mining operations, hydraulic roof supports are used to support the mine roof so as to protect the mining personnel who operate and maintain the equipment and mining equipment itself such as shearer and armoured face conveyor. Hydraulic roof supports also are employed to advance the whole long-wall mining system after the shearer or plough makes each pass along the coal face.

BUSINESS OF THE TARGET GROUP

Typically, hydraulic roof supports are sold in sets of 120 to 160 supports and equip working faces which can reach up to 300 meters in length, with one support for each 1.5 meters to 2 meters. The choice of hydraulic roof supports to be used depends upon the coal mine geology, the thickness of the coal face and size of shearers, presence of gas or water and position in the mine. Among other things, working resistance and clearance are two important factors a customer typically considers in purchasing hydraulic roof supports. Working resistance measures the roof pressure that the hydraulic roof supports can withstand. Hydraulic roof supports with high working resistance can withstand high roof pressure and therefore, may be used in a wider variety of mining conditions than hydraulic roof supports with low working resistance.

Clearance measures the space protected by the hydraulic roof supports. The clearance of the hydraulic roof supports determines the height of the seams in which they can be used. Low clearance hydraulic roof supports are used in thin seams mining.

The Target Group principally manufactures four major types of hydraulic roof supports: two-leg support, four-leg choke support, sub-level caving powered shield and face-end hydraulic roof supports with working resistance ranging from 1,800 KN to 25,600 KN and clearances ranging from 1.4 meters to 6.0 meters. Its main products include the highest value-added types of hydraulic roof supports, including fully automated systems, extra-strong working resistance supports, and both extra-high clearance and extra-low clearance supports for use with the appropriate shearers from its product line in coal seams of all different thicknesses. Its roof supports have been chosen by customers for use in some of the most challenging long-wall mining operations in China.

The following table sets forth the highlights of the hydraulic roof supports of the Target Group:

Hydraulic Roof Support	Features
Two-leg support	Two-leg support type hydraulic roof supports have six types in five series with working resistance ranging from 1,800 KN to 17,000 KN and height ranging from 1.5 meters to 5.6 meters. Some of them may be used with fully-automatic ploughs working in thin seams. Its two-pillar shield type hydraulic roof supports generally feature simple structure, light weight, sufficient passages for workers and good ventilation.

BUSINESS OF THE TARGET GROUP

Four-leg chock support

Four-leg chock support hydraulic roof supports have three types in four series with working resistance ranging from 3,000 KN to 13,000 KN and heights ranging from 1.4 meters to 6.0 meters. They are mainly used in thick seams.

Sub-level caving powered shield

Sub-level caving powered shield hydraulic roof supports have four types in four series with working resistance ranging from 1,800 KN to 13,000 KN and clearance ranging from 1.4 meters to 4.5 meters. They feature low clearance and low body which enables them to work in thin seams.

Face-end hydraulic roof supports

Face-end hydraulic roof supports have twelve types with working resistance ranging from 12,800 KN to 25,600 KN and height ranging from 1.6 meters to 3.4 meters. They are mainly used in the tunnels cut by the roadheaders rather than on the working face.

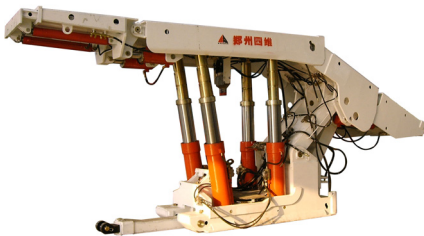
Two-leg support



Four-leg chock support



Sub-level caving powered shield



Face-end hydraulic roof supports



BUSINESS OF THE TARGET GROUP

The table below sets forth the revenues, gross profit margin and the average selling price by each product type and average unit steel costs for the periods indicated:

Revenues by product type <i>(RMB'000)</i>	Year ended 31 December		
	2007	2008	2009
Two-leg support	307,118	467,147	499,081
Four-leg chock support	22,990	43,742	49,482
Sub-level caving powered shield	206,233	450,012	618,149
Face-end hydraulic roof supports	12,541	23,635	11,534
Gross profit margin by product type			
<i>(Approximate %)</i>			
Two-leg support	19.97%	13.02%	16.19%
Four-leg chock support	16.39%	12.19%	22.75%
Sub-level caving powered shield	14.39%	12.48%	16.04%
Face-end hydraulic roof supports	31.68%	30.50%	31.99%
Average selling price by product type			
<i>(RMB'000)</i>			
Two-leg support	155.8	224.3	177.9
Four-leg chock support	146.4	207.3	298.1
Sub-level caving powered shield	175.2	257.1	244.8
Face-end hydraulic roof supports	570.0	945.4	576.7
Average unit steel costs			
<i>(RMB'000)</i>			
Mining machinery	108.9	178.5	140.4

Zhengzhou Siwei nearly doubled its sales in 2009 as compared to sales in 2007. To achieve such growth and gain market share, Zhengzhou Siwei sacrificed profitability for volume growth. Thus, margins for mining machinery products generally declined in 2008. The decline of margin in 2008 was also due to steep rises in steel prices. Given the normalization of steel prices, margins have rebounded in 2009 to 2007 levels. Margins for face-end support products are relatively stable given the nature of the product. Relative to other products, they are sold in smaller quantities and require a higher degree of customization and technical sophistication, giving Zhengzhou Siwei more pricing power.

BUSINESS OF THE TARGET GROUP

For the years ended 31 December 2007, 2008 and 2009, the revenue from the hydraulic roof supports, related parts and scrap materials was approximately RMB563.5 million, RMB1,008.5 million and RMB1,236.2 million respectively. The following table, extracted from Appendix I “Accountants’ Reports on the Target Group” to this circular, sets forth the revenue from sales of mining machineries and the revenue from sales of spare parts for the periods indicated.

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Sales of mining machineries	548,882	984,536	1,178,246
Sales of spare parts	<u>14,649</u>	<u>24,004</u>	<u>57,951</u>
Total	<u><u>563,531</u></u>	<u><u>1,008,540</u></u>	<u><u>1,236,197</u></u>

Production Facilities and Process

Production process

The production process of hydraulic roof supports of the Target Group comprises five major steps, including design, material preparation, processing and component testing, assembling and product testing. A summary of its production process is set forth below:

Design	The hydraulic roof supports are designed according to the geological conditions of the mine and the requirements of its customers before commencing production.
Material Preparation	At the material preparation stage, the Target Group procures the raw materials and parts to be used during production. The major raw material is steel. Other main raw materials include valves (either manufactured in-house or outsourced), hoses and tubes and other standardized components.

BUSINESS OF THE TARGET GROUP

Processing and
Component
Testing

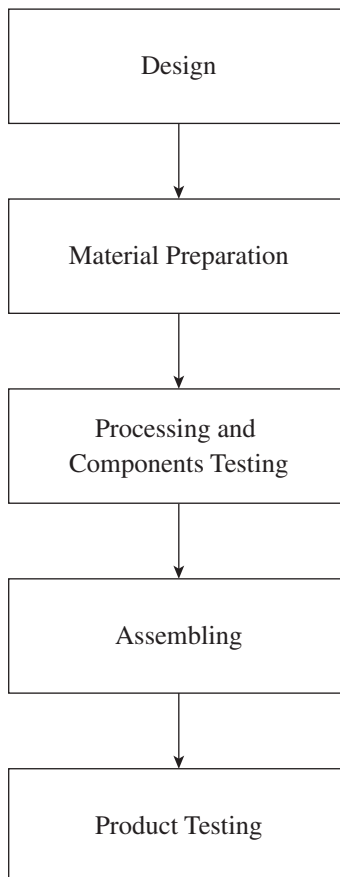
Raw materials are processed into parts to be assembled. The processing generally includes cutting raw materials into desired shapes, forging, welding, heat processing, and machine processing. The Target Group's production facilities have equipment which enables the Target Group to process the high precision parts it needs. Certain components are tested to ensure they meet the required standard.

Assembling

The finished parts and procured parts are assembled to make the whole equipment.

Product Testing

Before each product is warehoused or delivered to the customer, it will be tested to ensure it meets its internal and customer's quality standards.



BUSINESS OF THE TARGET GROUP

The average lead time for the Target Group's production of hydraulic roof supports is typically between two to three months depending on the complexity of the product.

Production base and facilities

Its principal production facilities are located in Zhengzhou, Henan Province.

The following table sets forth the locations of its principal production facilities, approximate gross floor area, ownership, key production process and date of production commencement:

Location	Approximate gross floor area of the property <i>(square metres)</i>	Owned/ Leased	Key Production Process	Date of production commencement
No. 7 Jinsuo Road, High-tech Development Zone, Zhengzhou	12,390.00	Owned	Machining workshop for making cylinder and other machining parts	May 2002
No. 9 Jinsuo Road, High-tech Development Zone, Zhengzhou	3,958.56	Owned	Processing workshop, hydraulic workshop and research & development personnel office	May 2002
Southern Side of Guanggu Road, Dongzhuang Village, Guangwu Town, Xingyang	52,419.55	Owned	Preparation for fabrication/ steel plates cutting/ blanking/welding/ chromium and zinc electroplating	July 2008 (preparation workshop and parts machining workshop) July 2009 (electroplating workshop)
No. 5 Cargo Area, Zhengzhou Zhongchu Nanyangzhai Warehouse, No. 9 Xinglongpu Road, Zhengzhou	26,555.05	Leased	Assembly workshop for final assembly of roof supports	January 2007
Northern Side of Wutong Street, Western Side of Yinping Road South, High-tech Development Zone, Zhengzhou	11,597.92	Leased	Steel tubes and steel rods blanking/parts machining and welding/assembly of roof supports	July 2008 (blanking workshop) November 2009 (parts machining workshop)

BUSINESS OF THE TARGET GROUP

The Target Group has obtained ISO9001:2000 certification for its quality management system in respect of the design development, production and service of the fittings and the hydraulic roof supports.

The following table sets forth the production capacity and utilization rate, for the periods indicated:

	For the year ended 31 December		
	2007	2008	2009
Production capacity (<i>units</i>)	3,748	4,251	6,486
Utilization rate (<i>approximate %</i>)	87%	97%	90%

Note: Utilisation rate is calculated as units produced divided by production capacity.

QUALITY CONTROL

Through its quality control procedures, the Target Group seeks to ensure that its products meet national and industrial standards as well as customer requirements. It has obtained ISO9001:2000 certification for its quality management system in respect of the design development, production and service of the fittings and the hydraulic roof supports.

To ensure the quality of raw materials, the Target Group selects its suppliers carefully, and continuously monitors the materials supplied and conducts periodic evaluations of its suppliers.

Throughout the production process, manual inspection and performance tests are carried out at each stage of the assembly procedure to ensure a stable and steady production process. Quality inspection teams conduct random tests of both intermediate and finished products on a sample basis to ensure the products comply with its internal standards.

RESEARCH AND DEVELOPMENT

The Target Group has set up its own research and development team for the continuous improvement of its products and its design, engineering, research and development capabilities. Resources are devoted by the Target Group for this purpose. As of the Latest Practicable Date, the Target Group employed over 70 technical personnel including researchers and engineering technicians, which accounted for approximately 4% of its total number of employees, most of them have received college or higher education. Details of the Target Group's research and development expenses during the Track Record Period are set out in the sub-section headed "Factors affecting Zhengzhou Siwei's results of operation and financial condition" in the section headed "Financial Information of the Target Group" of this circular.

BUSINESS OF THE TARGET GROUP

In addition to in-house resources, the Target Group enters into arrangement with local research institutes to leverage on their expertise to improve and develop the Target Group's products. In April 2007, Zhengzhou Siwei entered into a contract with 中國礦業大學 (China University of Mining and Technology) ("CUMT") for developing hydraulic roof support with back fillings. Zhengzhou Siwei paid a lump sum research and development fee to CUMT. CUMT is responsible for providing Zhengzhou Siwei with, among other things, product solution and product structural diagram, and owns the intellectual property rights. Based on CUMT's input, Zhengzhou Siwei is responsible for the product design including all component parts of the product. Zhengzhou Siwei is also responsible for product production and provision of after sales services to customers. For each sale, Zhengzhou Siwei and CUMT would jointly determine the standard price of the product and agree in writing before the sale. If the sales price falls below the standard price determined by Zhengzhou Siwei and CUMT, no production can be taken place. CUMT is entitled to a fee in respect of the intellectual property rights by reference to a certain percentage of the standard price of the product. For the profit above the standard price, CUMT can share majority of such profit. At the request of customers, Zhengzhou Siwei and CUMT may work together to provide technical services to customers to redevelop and modify customers' existing hydraulic support product. For the technical service contract signed by Zhengzhou Siwei with customers, CUMT is entitled to fees calculating at the applicable percentages of the fees such as design fee, installation fees, modification and processing fees stipulated under the contract. CUMT is entitled to all intellectual property rights unless such intellectual property right is developed wholly by the support and the intellectual property right of Zhengzhou Siwei.

In November 2009, Zhengzhou Siwei entered into another contract with CUMT, pursuant to which, CUMT grants Zhengzhou Siwei an exclusive right to use certain intellectual property rights of CUMT to develop a further version of hydraulic roof support with back fillings. The contract entered into in April 2007 was superseded and ceased to have effect pursuant to a termination contract dated 4 June 2010. CUMT is responsible for providing Zhengzhou Siwei with, among other things, product solution and product structural diagram, and owns the intellectual property rights. Based on CUMT's input, Zhengzhou Siwei is responsible for the product design including all component parts of the product. Zhengzhou Siwei is also responsible for product production, sales and provision of after sales services to customers. The sale price has to be notified to CUMT in writing before the sale. If CUMT notifies Zhengzhou Siwei in writing for its disagreement, Zhengzhou Siwei cannot enter into the sale contract at that sale price. CUMT is entitled to all intellectual property rights. However, if the intellectual property right is developed based on Zhengzhou Siwei's funding, technical support and intellectual property right, Zhengzhou Siwei and CUMT will be jointly entitled to such intellectual property right. CUMT is entitled to a fee by reference to a certain percentage of the sale contract price of the product. If both Zhengzhou Siwei and CUMT agree, Zhengzhou Siwei can sell, among other things, the product design diagram to customers and CUMT will be paid a fee calculating at a certain percentage of the contract price. Sales of the Target Group attributable to the product developed by CUMT represented approximately 0.97% and 0.49% of total sales for the year ended 31 December 2008 and 2009 respectively. Gross profit of the Target Group attributable to the product developed by CUMT represented approximately 2.26% and 0.62% of total gross profit for the year ended 31 December 2008 and 2009 respectively.

BUSINESS OF THE TARGET GROUP

Zhengzhou Siwei engaged 河南理工大學 (Henan Polytechnic University) (“Henan Polytechnic”) for a research and development project in September 2009. Zhengzhou Siwei paid a lump sum to Henan Polytechnic in respect of this project and would own the intellectual property right developed. In November 2009, Zhengzhou Siwei entered into a cooperation agreement with 遼寧工程技術大學材料科學與工程學院 (College of Materials Science and Engineering of Liaoning Technical University) (the “Materials Science and Engineering College”) for a term of two years. Pursuant to the cooperation agreement, both parties will arrange visits to each other for exchange of new information, discussion and learning purposes. The Materials Science and Engineering College will comment the existing products and production process of Zhengzhou Siwei, and inform Zhengzhou Siwei the new development in material science and engineering aspect so as to allow Zhengzhou Siwei to grasp the latest technology development for its product development. Moreover, the Materials Science and Engineering College will offer training courses to Zhengzhou Siwei staff at favourable terms. Zhengzhou Siwei will become a training base for students of the Materials Science and Engineering College and pay a lump sum annually to the Materials Science and Engineering College. If the Materials Science and Engineering College and Zhengzhou Siwei jointly develop and/or sell a product, it will be done on project basis and separate technology development agreement will be entered into among parties to stipulate their respective rights and obligations including, among other things, cost/profit sharing arrangement and entitlement to ownership of the intellectual property rights developed. In early 2009, Zhengzhou Siwei entered into an outline agreement of cooperation with a foreign company engaging in design and manufacture of hydraulic, electro-hydraulic and pilot control systems with auxiliary hydraulic locks and valves, as well as connections and fittings for high-pressure hoses. The products of the foreign company are designed for operation in underground mines of the coal-mining industry. Pursuant to the outline agreement of cooperation, the foreign company agreed to support the regeneration of Zhengzhou Siwei’s hydraulic plates control system. As part of the cooperation, Zhengzhou Siwei agreed to offer services of marketing and technology to the foreign company’s products in the PRC. Detail terms in respect of the provision of products, equipment and services under the outline agreement of cooperation are subject to further negotiations among parties.

Through its research and development effort for the past few years, the Target Group has successfully developed the following products:

1. In 2005, Zhengzhou Siwei developed electro-hydraulic shield support (model number: ZY4800/10/22D) for coal plow, in cooperation with an industry player. The electro-hydraulic shield support enables the automation of the movement of hydraulic roof supports so as to reduce the number of workers on the working face thereby increasing safety and efficiency;
2. The mechanized hydraulic shield support (model number: ZY3000/08/18) for thin coal seam was developed in 2005, which enabled the customer to operate in a thin seam coal mine;

BUSINESS OF THE TARGET GROUP

3. The powerful hydraulic caving shield support (model number: ZF7200/18/33) was developed in 2005, which could be used for cutting large mining height coal seam up to 10 meters in one operation;
4. A more powerful large mining hydraulic shield support (model number: ZY7600/24/50) was developed in 2006, which had been upgraded and further developed since its launch. The upgraded version could be operated in the coal mine with higher coal ceiling;
5. In 2006, a special face-end shields (model number: ZFT20000/21/34) was developed, which was compact and designed to match other connecting coal mining equipments underground, which will not be fit for other type of face-end hydraulic roof shield support;
6. An advance-shield support was developed in 2007, which successfully solved the problem for mechanized advance-supporting with the gateway of 20 meters to 30 meters;
7. A high efficiency hydraulic caving shields (model number: ZF9000/22/35) was developed in 2007, which increased the working efficiency for customers by up to 150% as compared to previous model ZY9000/22/35 for the same coal mine situation;
8. The electro-hydraulic shield support (model number: ZY8640/25.5/55D) for the coal mines with large mining height was developed in 2008. This type of roof support can support the coal height of 5.5 meters;
9. The shields support with back filling (model number: ZZC4800/16/32) was developed in 2008 through cooperation with China Mining University, which enable the customers to operate under building, railroad, and bridges so as to expand the scope of the collectable resources;
10. The caving shields support (model number: ZF12000/25/40) customized for the large mining height coal seam in Zhalainuoer City, Inner Mongolia has one of the highest supporting strength in China, meeting specific mining requirements there of super-thin coal seam and ultra-high mining pressure; and
11. The super-thin coal seam mining shields support (model numbers: ZY2400/05/11D, SGB630/200 and MG100/130PL) was developed in 2009, which provided a solution for the customers to operate in the coal mines of in a range of between 0.7 meter to 0.8 meter coal seam.

BUSINESS OF THE TARGET GROUP

ACCREDITATION AND AWARDS

The following are the certificates and awards from various and governments bodies received by the Target Group.

Time of grant	Licence/certificate	Awarding body	Expiry date
September 2008	ISO9001:2000 Quality Management System	China Quality Certification Centre	September 2011
November 2009	ISO14001:2004 Environmental Management System	Beijing Zhongdahuayuan Certification Center	November 2012
November 2009	GB/T28001-2001 Occupational Health and Safety Management System	Beijing Zhongdahuayuan Certification Center	November 2012
December 2007	High and New Technological Enterprise Award	Henan Provincial Department of Science and Technology (河南省科學 技術廳)	N/A
February 2008	Outstanding Contribution to the Economy in 2007 Award	Management Committee of Zhengzhou Hi-Tech Industrial Development Zone (鄭州高新技術產業 開發區管理委員會)	N/A
January 2006	Excellent Enterprise in 2005	Management Committee of Zhengzhou Hi-Tech Industrial Development Zone (鄭州高新技術產業 開發區管理委員會)	N/A

BUSINESS OF THE TARGET GROUP

PROCUREMENT

The Target Group has centralized its purchasing and procurement processes across all of its business operations. Steel is the main raw material for the production of hydraulic roof supports. Details of steel price trend in the PRC during the Track Record Period is set out in the section headed “Industry Overview” of this circular. Other raw materials and components used in its production process include electric parts, hydraulic parts, automated control systems and bearings. The Target Group also procures certain components and parts primarily from local suppliers and subcontractors, depending on the specific production process requirements of each product.

The Target Group procures raw materials used in its production through direct supply arrangements and processing subcontracting arrangements. Under direct supply arrangements, parts and components are directly procured from suppliers. Under processing arrangements, the Target Group provides raw materials together with the designs and standards of the parts and components required to subcontractors and purchase the relevant parts and components from them.

The Target Group engages approximately 70 subcontractors primarily for processing, welding and electroplating of metal surface, who generally have relationships averaging 2.5 years with the Target Group. The subcontractors are domestic companies primarily engage in processing and manufacturing of parts and components of mining machinery and equipment. For the years ended 31 December 2007, 2008 and 2009, the outsourcing fee paid by the Target Group amounted to approximately RMB36.5 million, RMB53.1 million and RMB72.9 million, representing approximately 7.9%, 6.1% and 7.1% of total cost of sales, respectively.

During the Track Record Period, the Target Group engaged Jiaozuo Siwei and Baoji Siwei to provide certain services mentioned above. Jiaozuo Siwei and Baoji Siwei had been related parties of the Target Group. Further details relating to Jiaozuo Siwei and Baoji Siwei are set out in the section headed “History and Background of the Target Group” of this circular. As at the Latest Practicable Date, the Target Group discontinued to obtain services from Baoji Siwei and intends to continue to obtain services from Jiaozuo Siwei which was, as at the Latest Practicable Date, an independent third party. The Target Group purchased relevant parts and components from Jiaozuo Siwei for the years ended 31 December 2007, 2008 and 2009 amounted to approximately RMB8.3 million, RMB12.6 million and RMB2.2 million respectively. The Target Group purchased relevant parts and components from Baoji Siwei for the year ended 31 December 2007 amounted to RMB21.8 million. These transactions were made on normal commercial terms. As at the Latest Practicable Date, all other subcontractors are third parties independent from the Target Group.

BUSINESS OF THE TARGET GROUP

The Target Group chooses its suppliers and subcontractors based on various criteria, including their supply capacity, credit terms, price, contract performance, quality and customer service. It believes that it has generally maintained good and stable relationships with its major suppliers and subcontractors.

The Target Group has historically received credit terms up to six months from its suppliers.

Majority of the raw materials used by the Target Group are available from various suppliers in the market. As of the Latest Practicable Date, the Target Group has not experienced any major interruption in the supply of key materials or components and the Target Group does not anticipate any disruptions or difficulties in obtaining the raw materials in the foreseeable future.

As each order is dependent on the unique specifications of the customer's coal mine, the types and amount of raw materials needed are only known once orders are confirmed. Thus, the Target Group typically only purchases raw materials, particular steel, once orders are confirmed. Due to this, the Target Group does not stock up on raw materials inventory unless it is for immediate use. The significant increase in inventory balance as at 31 December 2009, when compared to 31 December 2008, was due to normal business expansion and the relatively larger number of orders received immediately prior to 31 December 2009 as opposed to 31 December 2008.

For the years ended 31 December 2007, 2008 and 2009, its five largest suppliers accounted for approximately 32.51%, 34.93% and 31.27% of purchases, respectively, and the largest supplier accounted for approximately 9.12%, 10.13% and 7.66% of its total purchases, respectively. All of the above mentioned five largest suppliers are independent third parties. None of the Directors, their respective associates or any shareholders that owns more than 5% of the issued capital, to the knowledge of the Directors, owned any interest in any of the above five largest suppliers during the Track Record Period.

Electricity is the primary source of energy for its operations. The Target Group did not experience any disruption resulting from utility supply shortage during the Track Record Period. The Target Group does not foresee any significant suspension of supply of those utilities.

BUSINESS OF THE TARGET GROUP

INVENTORY CONTROL

The inventory of the Target Group is comprised principally of raw materials, spare parts, semi-finished products and finished products. The Target Group implements adequate and effective inventory control policies in order to maintain an optimal inventory level which meets its business needs. The Directors believe that the policies of the Target Group in relation to inventory control are adequate and effective.

As at 31 December 2007, 2008 and 2009, Zhengzhou Siwei had inventory balances of approximately RMB96.6 million, RMB92.1 million, and RMB161.6 million respectively.

SALES AND MARKETING

Sales Network

The Target Group has established a clientele of coal mining producers located in 13 major provinces and autonomous regions through its sales headquarters and Zhengzhou Siwei M&E Sales.

As of the Latest Practicable Date, the Target Group had 23 sales employees based at its sales headquarters. The Target Group is responsible for (i) designing and manufacturing hydraulic roof supports; (ii) preparing technical proposals and commercial contracts for potential customers during the bidding process as well as settling the selling price; (iii) installing products at customer sites and providing technical training and trouble-shooting services for customers; (iv) supporting Zhengzhou Siwei M&E Sales in providing technical solutions to potential customers; (v) conducting ongoing research and development for new products; and (vi) working with Zhengzhou Siwei M&E Sales to collect marketing intelligence and supporting Zhengzhou Siwei M&E Sales to promote the business of the Target Group through various marketing tools, including but not limited to, trade shows and exhibitions. The Target Group is also responsible for the provision of warranties with respect to hydraulic roof supports sold to customers.

Since July 2007, the Target Group has been selling its products primarily with the assistance of Zhengzhou Siwei M&E Sales. Zhengzhou Siwei M&E Sales has been providing services to the Target Group, supervised by the sales headquarters of the Target Group and does not engage in any business other than the provision of sales-related assistance to the Target Group. Responsibilities of Zhengzhou Siwei M&E Sales include (i) promoting products of the Target Group under the name of the Target to the PRC market; (ii) collecting marketing intelligence and conducting competitive analysis for the Target Group; (iii) acting as liaison between the Target Group and the potential

BUSINESS OF THE TARGET GROUP

and existing customers; and (iv) providing after market services such as arranging spare parts for customers. The Target Group entered into an agreement dated 31 March 2010 with Zhengzhou Siwei M&E Sales with a one year term renewable upon mutual agreement. Should either party wish to terminate the agreement early, written notice must be given to the other party sixty days in advance. 100% of the Target Group's sales were conducted with the assistance of Zhengzhou Siwei M&E Sales from July to December 2007, for the year ended 31 December 2008 and the year ended 31 December 2009. The sales conducted with the assistance of Zhengzhou Siwei M&E Sales were approximately RMB341.9 million for the period from July to December 2007. For the year ended 31 December 2008 and 2009, such sales amounted to approximately RMB1,008.5 million and RMB1,236.2 million respectively, representing the total sales amount of Zhengzhou Siwei for the respective period. Before July 2007, the Target Group sold its products through other sales agents.

The Target Group enters into sales contracts directly with customers. The Target Group pays commission to Zhengzhou Siwei M&E Sales after customers making the payment. The amounts of commission paid to Zhengzhou Siwei M&E Sales were approximately RMB4.8 million, RMB17.3 million and RMB32.5 million for the years ended 31 December 2007, 2008 and 2009 respectively. The commission rate is based on the extent of involvement of Zhengzhou Siwei M&E Sales in the relevant marketing activities. Pursuant to the agreement as mentioned above, the commission rate was around 2 to 4% on sales amount based on product categories or otherwise agreed by both parties under certain circumstances. Pursuant to a supplemental agreement dated 26 April 2010 entered into between the Target Group and Zhengzhou Siwei M&E Sales, the commission rate has been split up into two components. The commission rate of around 1 to 2% will be determined on sales amount based on product categories and further commission of 1 to 2% will be based on amounts received from customers if they are collected through Zhengzhou Siwei M&E Sales. The directors of the Target Group consider that such commission rate has been determined after arms' length negotiations between the parties and is reasonable.

The directors of Zhengzhou Siwei consider that selling the Target Group's products with the assistance of Zhengzhou Siwei M&E Sales allows the Target Group to increase its sales coverage. Details of the distribution network of Zhengzhou Siwei M&E Sales is set out below. The use of Zhengzhou Siwei M&E Sales's services enables the Target Group to concentrate on product designing and manufacturing, while leveraging on the resources and marketing capabilities of Zhengzhou Siwei M&E Sales for sales development activities. The Target Group has maintained a stable and sound relationship with Zhengzhou Siwei M&E Sales and is satisfied with its performance.

BUSINESS OF THE TARGET GROUP

The distribution network of Zhengzhou Siwei M&E Sales is divided into five main regions and is summarised in the table below:

Region	Province covered	Number of sales representatives (each includes one general manager)	Number of sales offices (Note)
Region 1	Inner Mongolia Autonomous Region	11	1
	Jilin Province		Nil
	Liaoning Province	6	1
	Heilongjiang Province	5	1
Region 2	Henan Province	7	Nil
	Hebei Province		Nil
	Shandong Province		Nil
	Jiangsu Province		Nil
	Jiangxi Province		Nil
	Hunan Province		Nil
	Hubei Province		Nil
Region 3	Shanxi Province	8	Nil
Region 4	Shaanxi Province	12	Nil
	Anhui Province		Nil
	Xinjiang Uygur Autonomous Region		1
Region 5	Gansu Province	11	Nil
	Ningxia Hui Autonomous Region		Nil
	Qinghai Province		Nil
	Yunnan Province		Nil
	Guizhou Province		Nil
	Sichuan Province		Nil
	Guangxi Zhuang Autonomous Region		Nil
	Shendong City of Shaanxi Province		1
	Wuhai City of Inner Mongolia Autonomous Region		1

Note: Due to proximity of the provinces covered in Region 2 and 3, there is no separate sales office set up for these regions and daily operations are based in the Zhengzhou office.

BUSINESS OF THE TARGET GROUP

In addition, Zhengzhou Siwei M&E Sales has service centers in various locations in the PRC, namely Shenyang City of Liaoning Province, Harbin City of Heilongjiang Province, Ordos City and Wuhai City of Inner Mongolia Autonomous Region, Urumqi City of Xinjiang Uygur Autonomous Region and Shenmu City of Shaanxi Province. A manager is appointed in each service center responsible for its daily operations.

The directors of Zhengzhou Siwei understand that Zhengzhou Siwei M&E Sales anticipates to undertake a restructuring and that existing management and employees of Zhengzhou Siwei M&E Sales will form separate sales companies (which are not to be subsidiaries of Zhengzhou Siwei M&E Sales) by stages to cover business in different locations in the PRC. Zhengzhou Siwei M&E Sales will not be dissolved. Due to the sound business relationships with Zhengzhou Siwei M&E Sales in the past, the directors of Zhengzhou Siwei expect the provision of sales-related assistance by Zhengzhou Siwei M&E Sales and/or such sales companies to be formed by management and employees of Zhengzhou Siwei M&E Sales will continue after Completion. If the restructuring takes place, sales of Zhengzhou Siwei are not expected to be wholly generated with assistance of Zhengzhou Siwei M&E Sales after Completion. However, as at the Latest Practicable Date, such cooperation arrangements have not yet been approved by the board of Zhengzhou Siwei and no agreement has been signed in this regard.

The table below sets out the beneficial owners of Zhengzhou Siwei M&E Sales as at the Latest Practicable Date:

	<i>Approximate %</i>
(1) 7 PRC individuals, employees of Zhengzhou Siwei M&E Sales	48.60
(2) 1 PRC individual	51.40
Total	<u>100.00</u>

To the best of the knowledge, information and belief of the Directors after making all reasonable enquiries, the beneficial owners of Zhengzhou Siwei M&E Sales are third parties independent of the Company, the Target Group and their respective connected persons.

BUSINESS OF THE TARGET GROUP

Sales

The Target Group sold almost all its products to domestic mining companies which were the end-users during the Track Record Period. These customers of the Target Group usually purchase hydraulic roof supports through bidding processes. When a customer needs to buy hydraulic roof supports, it will publish a notice which normally lists the type of product to be procured and the requirements for the product. The Target Group normally visits the customer where the hydraulic roof support is to be used to gain a complete understanding of the technical requirements. The customer may conduct an onsite visit to the facilities of the Target Group to make sure the Target Group has the capability to supply the required product. After such visits, the Target Group submits a bid to the customer for its consideration. The Target Group then enters into a sale and purchase agreements with the customer. Once a sales contract is signed with the customer, the selling price of the products is normally fixed and there is no adjustment clause in the sales contract to cater for changes in steel prices after the signing of the relevant sale contract. This applies to all sales contracts completed and outstanding as at the Latest Practicable Date. However, in practice, when there was significant upward adjustment in steel prices after signing of sales contract, the Target Group has been able to re-negotiate pricing terms with the customers and partially pass on the effect of increased steel prices to customers by adjusting selling prices of its products.

Pricing

The sales prices of the products of the Target Group are not subject to price guidelines under PRC laws and regulations, whether sold domestically or internationally.

The Target Group sets its prices based on its costs plus a profit margin taking account of the various models and market conditions. The competitiveness of each of its products varies depending on its function, technology, specifications, degree of customization and the availability of alternative products.

It is not the strategy of the Target Group to compete primarily based on pricing. It seeks to differentiate its products from its competitors through the superior technical features, quality and service.

BUSINESS OF THE TARGET GROUP

Credit Policy and Collection

The Target Group collects payment for most of its sales in installments based on production milestones. It generally requires its customer to pay an initial deposit, when entering into a sales contract and before commencing production. The remainder of the contract price is payable according to the delivery terms of the contract. The Target Group normally requires its customers to pay 30% of the contract price upon the signing of the sales contract. Another 30% of the contract price is required before deliveries of the products. Another 30% is paid after deliveries, either upon delivery, upon installation, or some combination of both, with various credit terms according to commercial negotiation between the Target Group and its customers. The final 10%, is withheld by the customer as a quality assurance in accordance with standard industry practices. With the expiry of the warranty period, which is generally one year after delivery and acceptance, the Target Group collects the remaining 10% of the contract sum. The total amount of contract sum held under warranty amounted to HK\$1,405 million as at 31 December 2009.

The Target Group may adjust the credit terms, typically for one to six months from the delivery date, of a customer based on factors such as the credit history, years of relationship, sales volume and prevailing market conditions.

The Target Group did not have any material bad debt or doubtful debt during the Track Record Period. It makes provisions for bad debts that it believes sufficient to make up the accounts receivable which it is unable to recover according to the applicable accounting standards.

Delivery

The Target Group makes delivery of its products on site at its production premises when its customers accept the products. Upon the customer's request, the Target Group may arrange shipment by rail or truck to the customer's designated destination. The cost of shipment will be borne by either the customer or the Target Group according to the sales contracts.

Aftermarket services

Providing after market services is one of key strategies of the Target Group to build and enhance relationships with its customers. All revenue generated from aftermarket services are represented as sales of spare parts during the Track Record Period. Further details are set out in the section headed "Financial Information of the Target Group" of this circular. The Target Group intends to increase its aftermarket sales of spare parts by leveraging its extensive customer base and strong brand name, allocating more production capacity to the production of spare parts, and continuing to improve its customer service quality. The Target Group also provides other associated complimentary services such as exchange components, repairs, overhaul, refurbishing, upgrading, periodic maintenance, technical support and training.

BUSINESS OF THE TARGET GROUP

The sales of spare parts are the same as that for roof supports, which means that sales of spare parts are generated with the assistance from Zhengzhou Siwei M&E Sales. The future strategy is to allocate more capacity to the production of spare parts to meet increasing demand.

Customers of the Target Group who purchase the spare parts of the Target Group need only to contact their customer service representative at Zhengzhou Siwei M&E Sales to mobilize repair and maintenance teams of the Target Group, who are trained by the Target Group to troubleshoot and repair any problems. Toll-free customer service hotlines are available in order to improve the quality of services.

The Target Group provides technical support for the sales and marketing activities relating to aftermarket services conducted by Zhengzhou Siwei M&E Sales through its production facilities in Zhengzhou or at the client's site, depending on the situation. Its facilities are staffed by technicians trained to perform repair and maintenance on its products. It also maintains a stock of key components to facilitate timely response to customers' needs.

Customers

The Target Group sells almost all of its products to domestic end users. These customers include around 50 coal production enterprises located in over 13 provinces and regions throughout China. The size of these customers ranges from large-scale coal production enterprises to small to medium size coal production enterprises. During the Track Record Period, the products supplied by the Target Group to its five largest customers were used in large coal mines with annual output of 1 million ton per year or above.

For the years ended 31 December 2007, 2008 and 2009, its five largest domestic customers, who are mainly end-users of its products accounted for approximately 42.73%, 45.25% and 39.15% of its revenue, respectively, and the largest customer accounted for approximately 15.50%, 13.42% and 9.27% of its total revenue, respectively. All of the five largest customers of Zhengzhou Siwei are independent third parties. None of the Directors, their associates or any shareholders holding more than 5% of the issued share capital, to the knowledge of the Directors, own any interest in any of the above five largest customers of the Target Group during the Track Record Period.

BUSINESS OF THE TARGET GROUP

COMPETITION

In China, there are approximately 27 domestic hydraulic roof support manufacturers. The Target Group competes with major hydraulic roof support manufacturers in China and abroad.

Its primary international competitors include Bucyrus International Inc. and Joy Global Inc..

Its primary domestic competitors are stated below:

- Zhengzhou Coal Machinery Group Co., Ltd. (鄭州煤礦機械集團股份有限公司)
- Pingdingshan Coal Mine Machinery Co., Ltd. (平頂山煤礦機械有限責任公司)
- China Coal Beijing Coal Mining Machinery Co., Ltd. (中煤北京煤礦機械有限責任公司)
- Shanxi Pingyaug Industry Machinery Co., Ltd (山西平陽重工機械有限責任公司)

The products of the Target Group compete on the basis of performance, reliability, suitability, compatibility with other equipment in the full suite of long-wall mining equipment, pricing, advanced technology and after-sales services. In the future, the quality, availability and responsiveness of after-sales services will become an increasingly critical factor in competition.

In addition, the Target Group may face increasing competition from foreign manufacturers of mining equipment who are trying to enter into the China market. The entry of foreign competitors does not currently create a substantial threat because the price of imported equipment is relatively high, delivery periods are too long to be competitive, and the difficulties of establishing a strong sales and service network prevents them from establishing a permanent presence in the market and providing quality after-sales services. The Target Group will continue to devote resources on research and development, and quality control with a view to closing on the gap between its products and those offered by its international competitors in terms of technology and quality.

INTELLECTUAL PROPERTIES

As of the Latest Practicable Date, the Target Group held 21 registered patents and made 29 patent applications pending the approval of the State Intellectual Property Office of China. It continuously submits patent applications for products and technologies that it has developed in order to actively protect its intellectual property rights.

BUSINESS OF THE TARGET GROUP

The Target Group also held 7 domain names as of the Latest Practicable Date. For details, please refer to the paragraph headed “Intellectual Property Rights of the Enlarged Group” in Appendix VI to this circular.

During the Track Record Period and as at the Latest Practicable Date, based on information available to the Directors, the Target Group has not engaged in any litigation or legal proceedings for violation of intellectual property rights, nor is it aware of any violation of the same. Details of its intellectual property rights are set out in “Appendix VI – Statutory and general information” included in this circular.

OCCUPATIONAL HEALTH AND SAFETY

The Target Group regards occupational health and safety as one of its important social responsibilities. The business operations of the Target Group involve numerous methods of steel processing welding, high temperature treatment and electroplating and its employees may face the risk of these and other work-related injuries and accidents.

As the Target Group believes that adopting safe practices is the best way to ensure employee safety, it has posted safety reminders throughout its production facilities, requires the use of protective gear in its workshops and conduct regular training sessions for employees on accident prevention and safety management. It requires its employees to undergo equipment operation and safety training and pass a test demonstrating their understanding and obtain the occupation certificate issued by the State before they are permitted to handle specialized equipment such as pressure vessels, hoisting equipment, boiler furnaces and welding machines.

The Target Group imposes safety measures as well as regular and irregular internal safety inspections at all stages of its operations in order to minimize the possibility of work-related accidents and injuries. It provides various healthcare benefits and insurance to its employees in accordance with applicable laws and regulations as well as safety education. It has established safety standards in connection with matters such as purchasing, installation and operation of new equipment, construction of new facilities and renovation of existing facilities.

All of its principal operating subsidiaries have obtained and maintained product safety symbols for each type of its products from the SACMS. Its facilities have obtained GB/T 28001-2001 certificate for its occupational health and safety system.

As at the Latest Practicable Date, the Target Group did not experience any significant industrial accident resulting in fatalities. The Directors are of the view that as at the Latest Practicable Date, the Target Group had been in compliance with all the relevant laws and regulations in relation to production health and safety in all material respects.

BUSINESS OF THE TARGET GROUP

ENVIRONMENTAL MATTERS

The Target Group considers the implementation of environmentally responsible practices and the maintenance of high environmental standards a valuable asset and competitive strength. Its facilities have obtained ISO14001:2004 certification for its environmental management system.

The Target Group is subject to, among other relevant environmental protection standards, the following environmental laws and regulations: (i) The Environmental Protection Law of the PRC; (ii) The Law of the PRC on the Prevention and Control of Water Pollution; (iii) The Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Waste; (iv) The Law of the PRC on Prevention and Control of Environmental Noise Pollution; (v) The Law of the PRC on Prevention and Control of Air Pollution; (vi) the Law of Environmental Impact Assessment of the PRC; and (vii) the Clearer Production Promotion Law of the PRC.

As at the Latest Practicable Date, based on the confirmation letters issued by Construction Environmental Protection Bureau of the Administrative Committee of Zhengzhou Hi-Tech Industrial Development Zone and Xinyang Environmental Protection Bureau, (i) the Directors are of the view that during the Track Record Period, the Target Group had obtained all major environmental approvals required for their construction projects from the relevant government authorities and had not substantially violated any national, provincial and municipal environmental laws and regulations; and (ii) the PRC legal advisers to the Company are of the opinion that Zhengzhou Siwei has complied with all the applicable environmental laws in all material aspects and has obtained all material requisite environmental approvals under the relevant PRC laws and regulations during the Track Record Period.

The production processes of the Target Group generate acid water, waste gas, industrial dust, solid waste, and noise. Competent staff have been designated to take charge of environmental protection matters. Adequate measures have been taken in each production process to prevent causing pollution to the environment.

The Target Group also conducts environmental feasibility studies and environmental impact assessments for all of its new production or expansion projects and will install pollution control facilities whenever necessary to ensure its compliance with current as well as future environmental protection standards and requirements.

The annual cost of compliance with applicable rules and regulations amounted to approximately RMB23,600, RMB99,000 and RMB286,000 for the year ended 31 December 2007, 2008 and 2009 respectively. The expected cost of compliance for the year ending 2010 and 2011 will be approximately RMB550,000 each year. As the production of the electroplating workshop commenced in July 2009, the expected costs of compliance are higher in 2010 and 2011.

BUSINESS OF THE TARGET GROUP

INSURANCE

The Target Group carries insurance coverage for its assets pledged for loan borrowings. It also makes contributions to mandatory social security insurance for its employees to provide for retirement, medical, work-related injury, maternity and unemployment benefits.

As of the Latest Practicable Date, the Target Group has not received any material claims from its customers regarding any of its products.

EMPLOYEES

In accordance with the relevant labor and social welfare laws and regulations, the Target Group is required to pay in respect of each of its employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, maternity insurance and occupational injury insurance.

The Target Group is subject to various labour laws and regulations in the PRC, including the PRC Labour Contract Law as set out in the risk factor headed “Implementation of the new PRC Labour Contract Law may increase labour costs for the Enlarged Group” in the “Risk Factors” section of this circular. To the best knowledge of the Directors, there has been no material operational and financial impact on the Target Group during the Track Record Period relating to the implementation of such law. The Target Group will seek legal advice where required to facilitate implementation of such law going forward.

As at the Latest Practicable Date, based on information available to the Directors, the Directors are of the view that the Target Group had not experienced any major labour dispute and except the defects in the social insurance and housing fund system as disclosed in the section headed “Risk Factors” of this circular, had complied in all material respects with the applicable laws and regulations on labour and social welfare, and that there had not been any material breach of those laws and regulations during the Track Record Period.

PROPERTIES

The manufacturing facilities of the Target Group are located in Zhengzhou, Henan Province, the PRC. As of the Latest Practicable Date, it operated its businesses through 5 properties in the PRC, all of which are for its operational business, production facilities, offices and other places of operation. These properties consist of:

- (i) the land use rights to 4 parcels of land with a total site area of approximately 68,768 m²;
- (ii) 7 buildings with a total gross floor area of approximately 38,950 m²; and
- (iii) 3 parcels of leased land with a total site area of approximately 38,153 m².

Greater China Appraisal Limited, an independent property valuation firm, valued the Target Group’s owned property interests at approximately RMB65.7 million as of 30 April 2010. The text of the valuer’s letter, summary of values and valuation certificates prepared by Greater China Appraisal Limited in connection with its valuation are set out in “Appendix IV – Property Valuation of the Enlarged Group” included in this circular.

BUSINESS OF THE TARGET GROUP

Zhengzhou Siwei constructed a two-storey office building for training purpose on a land parcel located at 7 Jinsuo Road, Zhengzhou with a gross floor area of 536 sq.m.. The construction cost (which comprises the entire consideration of the construction contract) of such office building amounted to approximately RMB175,000. Zhengzhou Siwei has not obtained the Construction Planning Permit for the construction of such office building as the building is temporary in nature and the Zhengzhou Siwei plans to demolish the building in the future. Zhengzhou Siwei has not conducted acceptance examination on its completion, and has not obtained the Building Ownership Certificate. As advised by the PRC legal advisers to the Company, according to the relevant PRC laws, constructions without construction planning permit and failure to carry out rectifying measures to offset the consequence as a result of such constructions must be dismantled in due course. For constructions which are unable to be dismantled, the relevant properties or illegal income arising therefrom must be confiscated. Further, a fine below 10% of the construction cost may be imposed. In addition, as stipulated under the PRC laws, Zhengzhou Siwei may be subject to a fine of 2% to 4% of the consideration of the construction contract for constructed units delivered without passing the acceptance examination. Accordingly, the Target Group estimates the maximum monetary liabilities as result of the above-mentioned non-compliance would be approximately RMB24,000 pursuant to the principle of calculation advised by the PRC legal advisers to the Company. If Zhengzhou Siwei is required to cease occupation and usage of the above office building, it will have to relocate to other location. Based on information available to the Directors, Zhengzhou Siwei can relocate the staff to other existing office building in approximately two weeks, if needed, and any such relocation is not expected to have any material adverse effect on the overall financial conditions and operations of the Enlarged Group.

Zhengzhou Siwei occupies and uses a land parcel with a site area of approximately 5,083.4 sq.m. in Guangwu Town, Xingyang City and has constructed four buildings thereon with a floor area of 3,526.4 sq.m., 3,501.5 sq.m., 1,175.0 sq.m. and 32.0 sq.m., respectively, for the purpose of a electroplating workshop, the relevant office, dining hall and guard room, respectively. The construction cost (which comprises the entire consideration of the construction contract) of such land parcel and buildings amounted to approximately RMB30,055,000. Zhengzhou Siwei has not obtained the relevant certificates and permits for occupying and using such lands, and constructing relevant buildings on such lands. As application for a construction permits is conditional upon the issuance of a land certificate, such permit has not been obtained mainly due to the procedures for applying for the land certificates have not been completed. The land parcel mentioned above was designated for agricultural use, and Xingyang Municipal People's Government and Land and Resources Bureau of Xingyang had applied for the conversion of such land use to state-owned construction purpose. Recently, the above conversion has been completed and Zhengzhou Siwei will apply for the state-owned land use rights and building ownership certificate for the above land and buildings in accordance with the relevant PRC laws and regulations. The Target Group estimates that Zhengzhou Siwei will obtain the relevant land use rights and building ownership certificates by 31 August 2010 and 31 May 2011 respectively. As advised by the PRC legal advisers to the Company, according to the relevant PRC laws, any unauthorised occupation of land is subject

BUSINESS OF THE TARGET GROUP

to the return of land under order of the competent land authority of the people's government on or above the county level. For those which are in breach of the overall land use planning and changed the land use purpose from agricultural use to construction without permit, the competent land authority may impose orders to demolish the newly-built structures and other facilities on the unlawfully occupied land within a prescribed period, and rehabilitate the land to its original status. For those which are in compliance with the overall land use planning, the competent land authority may forfeit the newly-built structures and other facilities on the unlawfully occupied land and impose fines of below RMB30 per square meter of the unlawfully occupied land. Constructions without construction planning permit and failure to carry out rectifying measures to offset the consequence as a result of such constructions must be dismantled in due course. For constructions which are unable to be dismantled, the relevant properties or illegal income arising therefrom must be confiscated. Further, a fine below 10% of the construction cost may be imposed. Moreover, Zhengzhou Siwei may be required to stop the construction and be subject to a fine of 1% to 2% of the consideration of the construction contract due to failure of obtaining the construction permit. In addition, as stipulated under the PRC laws, Zhengzhou Siwei may be subject to a fine of 2% to 4% of the consideration of the construction contract for constructed units delivered without passing the acceptance examination. Accordingly, the Target Group estimates the maximum monetary liabilities as result of the above-mentioned non-compliance would be approximately RMB1,749,000 pursuant to the principle of calculation advised by the PRC legal advisers to the Company. Persons-in-charge and persons who are primarily responsible for the unlawful occupation of land shall be subject to administrative penalties, and may be subject to criminal liability in accordance with the law if their behaviors constitute a crime. However, the Land and Resources Bureau of Xingyang, a competent authority, has issued a confirmation letter to confirm that the conversion of such land use to state-owned construction purpose is in the process and complies with the relevant planning requirements, and it will not impose penalties on Zhengzhou Siwei, or require Zhengzhou Siwei to relocate from the said lands for the occupation and use of the said lands by Zhengzhou Siwei before it obtains the relevant land use rights and building ownership certificate. The Planning Administration Bureau of Xingyang, a competent authority, has issued confirmation letters to confirm that the construction of the buildings on the above-mentioned land parcel has complied with the overall planning of Guangwu. Further, the Construction Administration Bureau of Xingyang, a competent authority, has also approved Zhengzhou Siwei to undergo construction and process construction permit at the same time, re-apply construction permit until relevant procedures are completed, and meanwhile, Zhengzhou Siwei may use the relevant properties to undergo manufacturing and operation as usual. The PRC legal advisers to the Company also confirmed that based on the confirmations issued by such authorities, the possibility to impose penalties by such relevant authorities on Zhengzhou Siwei and the persons-in-charge due to Zhengzhou Siwei using the lands and buildings before obtaining the relevant certificates is minimal. Based on the above confirmations from the relevant competent authorities and the PRC legal advisers to the Company, the Directors believe that the absence of the relevant certificates does not have any material impact on the operations of the Enlarged Group.

BUSINESS OF THE TARGET GROUP

In addition, Zhengzhou Siwei leased two parcels of state-owned land at Yinping Road South and Xinglongpu Road for manufacturing and storage purposes. Since these two parcels of land are classified as allocated land and the leasing by the lessors has not been approved by the relevant land authorities, the lessors are not authorised to lease the land use rights to Zhengzhou Siwei. As a result, Zhengzhou Siwei is now relocating the such manufacturing and storage facilities to Guangwu Town and, based on the information available to the Directors, it is expected that the relocations will be completed by 31 December 2010. The PRC legal advisers to the Company confirmed that Zhengzhou Siwei should bear no liabilities for the leasing after it moves out of such lands. Given that (i) Zhengzhou High and New Technology Industries Development Zone Administration Committee has issued a confirmation letter to confirm that Zhengzhou Siwei may use the relevant properties to undergo manufacturing and operation as usual and it will not require Zhengzhou Siwei to vacate the properties located at Yinping Road South before obtaining the relevant certificates and (ii) Zhengzhou Siwei has the right to claim losses against the lessor in respect of state-owned land at Xinglongpu Road, the Directors believe that above irregularities do not have any material impact on the operations of the Enlarged Group.

As the above properties with defective title and primarily used for non-manufacturing purpose, such properties are not crucial to the Target Group's operations taking into account the operational and financial impact to the Target Group if the Target Group is to vacate from such properties.

In respect of the above title defects in the properties of Zhengzhou Siwei, the Controlling Shareholders and Mr. Li Rubo have undertaken to indemnify the Enlarged Group against any damages, losses, expenses or liabilities which are or become payable or incurred by any members of the Enlarged Group, including relocation costs and expenses (if any), as a result of, relating to, arising from or in connection with any title defects of the properties owned, leased or otherwise used by the Enlarged Group.

LEGAL COMPLIANCE AND PROCEEDINGS

The Target Group may from time to time be involved in contract disputes or legal proceedings arising from the ordinary course of its business.

BUSINESS OF THE TARGET GROUP

As at the Latest Practicable Date, except the non-compliance matters as disclosed in the section headed “Risk Factors” and in the sub-section headed “ Properties” in this section above, the PRC legal advisers to the Company are, based on information available to them, of the view that Zhengzhou Siwei had been in compliance with the relevant laws and regulations in all material respects, and had obtained all material licences, approvals and permits from the relevant regulatory authorities for Zhengzhou Siwei’s business operations during the Track Record Period in the PRC. As the acquisition of the Target by the Company is not involved in the circumstances which should be considered as the listing of a special purpose company (特殊目的公司) under M&A Rules, the PRC legal advisers to the Company also advised that the acquisition of the Target by the Company and the deemed new listing of the Target is not subject to M&A Rules and no additional approval from PRC governmental authority should be obtained for the purpose of such acquisition. In order to prevent future re-occurrence of similar non-compliance matters, Zhengzhou Siwei established a department in October 2009 which is responsible for the compliance matters and reports directly to the board of directors of Zhengzhou Siwei for any incidents or non-compliance with relevant laws and regulations. It will conduct a review on any new project proposed by the board of directors of Zhengzhou Siwei and prepare a report detailing all necessary licences, approvals and permits required for such project. Furthermore, Zhengzhou Siwei will from time to time engage external legal counsels and seek their advice in relation to compliance matters in respect of Zhengzhou Siwei’s operations. Zhengzhou Siwei will also engage external legal counsels to provide relevant training to directors of Zhengzhou Siwei and members of this department in addition to other legal matters of Zhengzhou Siwei.

As at the Latest Practicable Date, based on information available to the Directors, except the non-compliance matters as disclosed below, in the section headed “Risk Factors” and in the sub-section headed “Properties” in this section above, the Directors and the Proposed Directors are of the view that the Target Group had been in compliance with the relevant laws and regulations in all material respects, and had obtained all material licences, approvals and permits from the relevant regulatory authorities for the Target Group’s business operations in the PRC.

Compliance with Companies Ordinance

Pursuant to sections 122(1) and 122(2) of the Companies Ordinance, the directors of the Target, namely, Mr. Williams and Mr. Li Rubo, must cause the profit and loss account and balance sheet of the company to be made up and laid before the Target and its shareholders at each of its annual general meetings.

BUSINESS OF THE TARGET GROUP

Since its incorporation on 22 February 2007 up to 31 December 2008 (the “2 Financial Periods”), the directors of the Target have delegated the Target’s secretarial matters and accounting matters to its company secretarial provider and accounting service provider, respectively. Until recently, the audited consolidated financial statements of the Target Group for the 2 Financial Periods had not been prepared. On 13 November 2009, the Target appointed RSM Nelson Wheeler to audit the consolidated financial statements of the Target Group for the 2 Financial Periods. Shortly after the appointment, the directors of the Target were advised that the consolidated financial statements of the Target Group for the 2 Financial Periods are required under the Companies Ordinance to be prepared due to the Target’s borrowing activities and investment in the PRC. Such consolidated financial statements of the Target Group for the 2 Financial Periods were approved by the directors of the Target on 20 November 2009.

The Target has made an application on 3 May 2010 to the Court of First Instance in Hong Kong pursuant to section 122(1B) of the Companies Ordinance for an order that the requirements under sections 122(1) and 122(2) of the Companies Ordinance be substituted and leave be granted to the directors of the Target to lay its profit and loss accounts and balance sheets for the 2 Financial Periods, before a general meeting of the Target. The hearing of the said application was held on 26 May 2010 and the court made an order that the directors of the Target shall hold a general meeting for the purpose of laying before the Target the profit and loss account and balance sheet for the 2 Financial Periods at the Target’s registered office, and such general meeting to be held within 28 days from the date of the said court order.

The Hong Kong legal advisers to the Company Wilkinson & Grist, advised that the court was satisfied that it would be appropriate in the circumstances to exercise the power under section 122(1B) of the Companies Ordinance to regularize the non-compliance with section 122 of the Companies Ordinance. Accordingly, the directors of the Target have held the required general meeting and laid before the Target the profit and loss account and balance sheet for the 2 Financial Periods on 14 June 2010. As a result, the aforesaid non-compliance with the Companies Ordinance has been rectified and the directors of the Target are now in full compliance with section 122 of the Companies Ordinance, i.e. the directors of the Target are no longer in breach of section 122 of the Companies Ordinance.

BUSINESS OF THE TARGET GROUP

In relation to the above non-compliance with the provisions of section 122 of the Companies Ordinance, the director failing to take reasonable steps to ensure that the accounts are tabled at the annual general meeting shall be liable to a maximum penalty of a fine of HK\$300,000 and 12-month imprisonment. The Hong Kong legal advisers to the Company Wilkinson & Grist, advised that it is highly unlikely an imprisonment term will be imposed on Mr. Williams and Mr. Li Rubo, being the directors of the Target, who were not aware of the requirements under section 122 of the Companies Ordinance and it has to be proved beyond reasonable doubt that the offence was committed wilfully, if prosecuted. Further, Mr. Williams and Mr. Li Rubo might avail themselves of the statutory defence under section 122(3)(a) of the Companies Ordinance that they had reasonable grounds to believe and did believe that a competent and reliable person (i.e., the Target's company secretarial and accounting service providers during the 2 Financial Periods) was charged with the duty of seeing that provisions of section 122 of the Companies were complied with and that a person was in a position to discharge that duty, but failed to do so. Whilst it is unclear whether the Registrar of Companies will initiate any criminal prosecution, the likelihood of prosecution becomes more remote as the aforesaid non-compliance with the Companies Ordinance has been rectified.

The internal control system of the Company requires company secretarial matters of the Company and its subsidiaries (including the Target Group upon Completion) to be handled or monitored by the company secretary of the Company who has expertise in accounting and financial management and is familiar with Hong Kong regulatory and reporting requirements. The management of the Company trust the existing internal control system of the Company, which will apply to the Target Group upon Completion, can provide sufficient monitor and measure function to the Enlarged Group to prevent future recurrence of the above non-compliance. In addition, the Company will consult with external adviser when necessary to ensure rules and regulations are complied. Additional trainings will also provide to the Target Group to ensure all the relevant senior management level has adequate knowledge in this regard.

Save as disclosed above, as at the Latest Practicable Date, the Target Group was not involved in any litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Target Group.

The Controlling Shareholders and Mr. Li Rubo have undertaken to indemnify the Enlarged Group against any damages, losses, expenses or liabilities which are or become payable or incurred by and members of the Enlarged Group, as a result of, relating to, arising from or in connection with all activities and operations (business or otherwise) of the Target Group conducted before the Completion.

STATEMENT OF BUSINESS OBJECTIVES

BUSINESS OBJECTIVES

The objective of the Target is to leverage its position as one of the PRC's leading suppliers of coal mining machinery. As set out in the section headed "Industry Overview" of this circular, the total sales of hydraulic roof supports in PRC increased from approximately RMB1.4 billion in 2003 to approximately RMB10.8 billion in 2008. In light of the continuous development in the PRC, the demand for energy is expected to increase, resulting in an increasing level of coal mining activities and production in the PRC. Moreover, the greater emphasis placed by the PRC government with respect to mining safety has caused mining companies to devote more financial resources in establishing facilities to ensure and improve safety in their production. This, together with the growth of the coal mining industry, results in positive market potential for equipment manufacturers in the PRC. In view of the growing market potential, the Target strives to enhance its market position by improving its products and grow into a leading supplier of quality coal mining machinery in the PRC market.

BUSINESS STRATEGIES

In order to achieve the objective set for the Target, the following strategies have been formulated to:

1. Continuously build up an experienced management team to support the strategic growth plan;
2. Expand market share through the development and promotion of innovative products and improved existing product lines. In 2009, Zhengzhou Siwei applied for 28 patents, as compared to 14 in 2008 and 3 in 2007. Further details on patents are set out in the section headed "Statutory and General Information" of this circular. The Target Group expects to continue to leverage its research and design capabilities to continue to generate new patented products, thereby increasing revenue;
3. Upgrade current products and introduce new products through internal research and development and strategic business partnerships;
4. Continuously improve manufacturing/engineering capabilities and consolidate the four existing manufacturing facilities into one to reduce the logistics and overhead costs, and optimise the manufacturing process;

STATEMENT OF BUSINESS OBJECTIVES

5. Strengthen aftermarket sales of spare parts by leveraging its existing customer base, allocating more production capacity to the production of spare parts, utilize the marketing experience and knowledge of Zhengzhou Siwei M&E Sales, and improving customer service quality;
6. Implement enterprise resource planning (“ERP”) system at the earliest time possible; and
7. Improve supply chain system to provide improved all-round customer service.

The Target’s business progress may be compared to certain key milestones in the future including any improvement in market position against its peers in terms of revenue growth, market share gains, service quality, number of patents generated, and development of its aftermarket services business.

IMPLEMENTATION PLANS

The Target intends to implement the set forth strategies from the Latest Practicable Date to 31 December 2012 through the following action plan:

Management Team

In order to sustain the expansion plan for the business, the Target has been strengthening its management through various training program and attracting seasoned business executives. The current president/chief executive officer, chief operating officer, and vice president – operations, bring with them management experience with various multi-national corporations in a range of between 13 years and 20 years. The management of the engineering function (namely, vice president – technical research and development, chairman of the board of Zhengzhou Siwei, chief technologist, general manager of design department and chief engineer of process) is contributing to the growth of the Target, bringing with experience in coal mining in a range of between 20 years and 51 years.

Product Innovation

The Target continually analyzes the needs of its customers in order to provide new and improved solutions to mining challenges. In order to achieve this, the Target has been consistently investing in research and development and collecting relevant marketing intelligence. In addition, the Target is also actively engaged with the leading research institutes and other leading mining equipment provider(s) to provide cutting edge products to the coal mining industry.

STATEMENT OF BUSINESS OBJECTIVES

Manufacturing

The Target intends to further implement and introduce the modern manufacturing tools like total productive maintenance, Lean Manufacturing, etc so that to optimize its manufacturing process and make its products at the lowest cost and highest quality possible. The Target will expand its capacity and capability of its plating plant. The Target will also upgrade its existing machineries through refurbishing the existing ones and purchasing more advanced ones. The Target will also enhance its engineering capability to optimize its process of the manufacturing.

Infrastructures

The Target plans to install a more sophisticated ERP system during second half of 2011 involving estimated costs of approximately RMB3.2 million which is expected to be financed by internal resources of the Target Group. The establishment of the ERP system will enable the Target to better manage its operation, reduce inventory, identify problems and corrective action necessary on a timely basis, optimize the supply chain, and provide better customer service. The Target intends to consolidate its current four manufacturing sites into one by the end of 2012, as described in more detail in the paragraph headed “Expand its production capacity and consolidate its production facilities” in the sub-section headed “Business strategies” of the “Business of the Target Group” section of this circular. Such relocation plan will involve capital expenditures of approximately RMB395.3 million, which include construction costs of approximately RMB92.0 million, installation expenses of approximately RMB3.2 million, land acquisition costs of approximately RMB60.3 million, and expenses related to purchases of equipment of approximately RMB264.0 million. Net cash inflow from relocation is expected to be approximately RMB24.2 million, representing proceeds from disposal of property plant and equipment of approximately RMB35.2 million less payments of removal expenses of approximately RMB11.0 million. The Target Group’s capital expenditure is expected to be financed by a combination of placement proceeds of approximately HK\$136 million (equivalent to approximately RMB120 million), as detailed in the sub-section headed “Placing” in the “Letter from the Board” of this circular, and the Target Group’s bank borrowings and internal resources.

The implementation of the Target Group’s business strategies depends on the availability of relevant business opportunities that may arise or may be seized upon by the Target Group within any particular or material period of time from the Latest Practicable Date to 31 December 2012.

BASES AND ASSUMPTIONS

The bases and assumptions regarding the Target’s business plan for 2010, 2011, and 2012 are summarised as follows:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in any of the countries, regions or industries in which the Target operates;

STATEMENT OF BUSINESS OBJECTIVES

- (b) the Target is able to obtain all necessary approvals from relevant government authorities for its business operations and products;
- (c) the PRC economy and demand for coal mining equipment (including hydraulic roof supports) continue to grow;
- (d) there will be no significant fluctuations in currency exchange rates, interest rates and tariffs and duties in the countries in which the Target operates;
- (e) there will be no material changes in the bases or rates of tax applicable to the Target in the respective jurisdictions in which the Target operates;
- (f) the Target is not materially and adversely affected by any of the risk factors set out in section headed “Risk factors’ of this circular; and
- (g) the Target’s operation and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, epidemics or serious accidents.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Pursuant to the Agreement, MML will be entitled to be issued 4,000,000,000 Consideration Shares upon completion of the Acquisition. Accordingly, immediately upon completion of the Acquisition, MML and its beneficial owners will, in aggregate, control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of the Company, thus will, collectively, become the controlling shareholders of the Company under the GEM Listing Rules.

As at the Latest Practicable Date, MML was beneficially owned by the following persons who will, collectively, become the controlling shareholders of the Company upon completion of the Acquisition:

	<i>Approximate %</i>
(1) Mr. Williams and his relatives	
Mr. Williams	5.63%
James Schroeder, brother-in-law of Mr. Williams	8.68%
Griffin Schroeder, nephew of Mr. Williams	0.79%
Janet Schroeder, niece of Mr. Williams	0.20%
Charles Schroeder, nephew of Mr. Williams	0.20%
Carol Schroeder, sister of Mr. Williams	1.47%
Bliss Browne, sister of Mr. Williams	1.47%
Janet Harrison, sister of Mr. Williams	1.47%
Nelle Temple-Brown, sister of Mr. Williams	1.47%
	<hr/>
sub-total:	21.38%
	<hr/>
(2) Mr. Thompson, the son-in-law of Mr. Li Rubo	78.62
	<hr/>
	<u>100.00</u>

As at the Latest Practicable Date, save as disclosed in this circular, none of MML nor any of its associates had interests in any other companies which (i) held interests in our business during the Track Record Period and thereafter; or (ii) may, directly or indirectly, compete with the Enlarged Group's business.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Competing Interests

Each of Mr. Emory Williams and Mr. Li Rubo, who will be appointed as executive Directors upon completion of the Acquisition, has beneficial interests in IMM, a company listed on the main board of the Stock Exchange (stock code: 1683). Specifically, as at the Latest Practicable Date, Mr. Emory Williams was interested in approximately 1.62% in the shares of IMM under his own name and through a company in which he has a 20% interest, and Mr. Li Rubo was interested in approximately 3.78% in the shares of IMM under his own name. Mr. Li Rubo is a non-executive director of IMM and has no executive function on the board of directors of IMM.

IMM designs, manufactures and sells underground longwall coal mining equipment, including shearers, which is used to cut the coal from the coal face in underground longwall mining, and roadheaders, which is used in excavating and tunneling in underground coal mining, in China, but is not engaged in the manufacturing and sales of hydraulic roof supports, which is the primary business focus of the Target Group.

The Directors consider that, notwithstanding that the business of the Enlarged Group and IMM are both falling under the mining machinery industry, there is no actual competition between the business of the Enlarged Group and IMM as the major products of the Enlarged Group, namely hydraulic roof supports, and that of IMM, namely shearer and roadheaders, are entirely different. The function and production process of these products are also different and even though the targeted customers of both the Enlarged Group and IMM may overlap, the same customers may make purchase from both at the same time without conflict given that the products offered by the Enlarged Group and by IMM are not substitutes to each other. In addition, IMM is not and will not be the Company's controlling shareholder upon the Completion.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, the Directors believe that the Enlarged Group is capable of carrying on its business independently of the Controlling Shareholders and their respective associates after completion of the Acquisition.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Management Independence

Upon completion of the Acquisition, Mr. Emory Williams and Mr. Li Rubo will be appointed executive Directors, and Mr. Lee Sung Min and Mr. Kim Boem Soo will resign as executive Directors. Accordingly, upon completion of the Acquisition, the Board will comprise of six Directors, including three executive Directors, namely Mr. Lee Jong-Dae, Mr. Emory Williams and Mr. Li Rubo, and three independent non-executive Directors, namely Mr. David Marc Boulanger, Mr. Christopher John Parker and Mr. Chan Sze Hon.

Each of the existing and proposed Directors is aware of his fiduciary duties as a Director of the Company which require, among other things, that he acts for the benefit and in the best interests of the Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Enlarged Group and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum. In addition, the Enlarged Group has an independent senior management team to carry out the business decisions of the Board independently. The Directors are satisfied that the Enlarged Group's senior management team is and will continue to be able to perform their roles in the Company independently, and the Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders after the Acquisition.

Operational Independence

The Enlarged Group has established its own organisational structure comprised of individual departments, each with specific areas of responsibilities. It has and will continue to have independent access to sources of supplies or raw materials for production as well as customers. The Enlarged Group has also established various internal controls procedures to facilitate the effective operation of our business. The Directors confirmed that they have no current intention to arrange the Enlarged Group to enter into any transactions with any connected persons and their associates upon completion of the Acquisition that will affect the Enlarged Group's operational independence.

Financial Independence

The Enlarged Group has an independent financial system and makes and will continue to make financial decisions according to its own business needs.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Loan from the Vendor to the Target

In 2007, the Target has obtained an interest-free loan from the Vendor in the amount of approximately US\$2,950,000 (equivalent to approximately HK\$23.0 million). The said loan from the Vendor was financed by personal advances to the Vendor from Mr. Williams, Mr. Li Rubo and Mr. Williams' relatives, which were interest-free and repayable on demand. Pursuant to the Agreement (as amended by a supplemental deed dated 31 March 2010 entered into between the Purchaser and the Vendor), upon Completion, such loan shall be (i) waived by the Vendor or; (ii) capitalised by way of the Target issuing additional share(s) of the Target to the order of the Vendor who shall procure such additional share(s) of the Target to be (i) issued in the name of the Purchaser or its nominee; or (ii) if issued to the Vendor, be transferred to the Purchaser or its nominee, simultaneously with the Sale Share. Accordingly, upon the Completion, the Company would be financially independent from the Vendor, Mr. Williams and Mr. Li Rubo.

Loans from IMM to the Target

For the purpose of acquisition of Zhengzhou Siwei by the Target in 2007, the Target has also borrowed US\$10,193,000 and US\$7,200,000 from IMM, an independent third party creditor, in December 2007 and June 2008 respectively. Such loans from IMM bear interest at 8% per annum and compound annually.

On 31 December 2009, as part of the reorganization of IMM, such loans from IMM together with interest in a total sum of approximately US\$19.9 million (equivalent to approximately HK\$155.2 million) were transferred and assigned to TJCC Holdings Ltd., a controlling shareholder of IMM, to set off a balance due from IMM to TJCC Holdings Ltd. of the same amount pursuant to an assignment and assumption agreement. Interest in the amount of approximately US\$711,000 (equivalent to approximately HK\$5.5 million) was further accrued since 1 January 2010 and up to the Latest Practicable Date. Partial repayment of such loans due to TJCC Holdings Ltd. in the amount of approximately US\$3,437,000 (equivalent to approximately HK\$26.8 million) and partial repayment of the interests accrued in the amount of approximately US\$3,011,000 (equivalent to approximately HK\$23.5 million) were made to TJCC Holdings Ltd. in April 2010 by bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC. As of the Latest Practicable Date, the total outstanding principal of the loan and interest accrued due from the Target to TJCC Holdings Ltd. were approximately US\$14.0 million and US\$180,000 (equivalent to approximately HK\$109.2 million and HK\$1.4 million) respectively. As at the Latest Practicable Date, the outstanding principal amount of the bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC was approximately US\$6.4 million (equivalent to approximately HK\$49.9 million) bearing interest at 8% per annum and compound annually. The outstanding accrued interests of the bridge loans was approximately US\$83,000 (equivalent to approximately HK\$647,000) as at the Latest Practicable Date. The Vendor has pledged its interest in the Sale Share to TJCC Holdings Ltd. as security for repayment of the said debt.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The Company intends to conduct fund raising exercise to raise the amount necessary to repay the bridge loans from Mr. Williams and Mr. Li Rubo and Williams Realty Co, LLC and/or the remaining/outstanding amount due to TJCC Holdings Ltd. It is also one of the condition precedents of the Completion that external financing will be obtained by the Purchaser and/or the Vendor by way of capital market fund raising or other means in an amount not less than HK\$200 million which would be used, among other things, to repay the loan and accrued interest due from the Target to TJCC Holdings Ltd. a third party creditor, the bridge loans, and the balance to be used for capital expenditure of the Target Group and working capital of the Company and the Target Group. Accordingly, all securities and share pledges given in favour of TJCC Holdings Ltd. is expected to be discharged upon completion of the fund raising exercise. It is expected that upon the Completion there would not be any securities or pledges provided by the Vendor and/or its connected persons or their respective associates such that the Company would be financially independent from the Vendor.

On the basis of the foregoing, the Directors (together with the proposed Directors) are of the view that, following Completion, the Enlarged Group is capable of obtaining financing from third parties independently without relying on any loan, guarantee or security provided by the Controlling Shareholders, and the Enlarged Group will be able to operate with financial independence from the Controlling Shareholders.

DEED OF NON-COMPETITION

MML, Mr. Li Rubo and each of the controlling shareholders of the Company upon completion of the Acquisition (namely, Mr. Williams, his relatives and Mr. Thompson) (collectively, the “Covenantors”), has entered into the Deed of Non-competition in favour of the Company, pursuant to which the Covenantors has undertaken to the Company (for itself and for the benefit of its current and future subsidiaries from time to time) that it or he or she would not and would procure that its or his or her associates (except for any members of the Enlarged Group) would not, during the period that the Deed of Non-competition remains effective, directly or indirectly, either on its or his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Enlarged Group from time to time (the “**Restricted Business**”).

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The above undertaking does not apply to:

- (a) holding by the Covenantors of interests in the shares of a company other than the Enlarged Group which are listed on a recognised stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by the Covenantors and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenantors and/or their respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by such Covenantors and their respective associates in aggregate.
- (b) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available by the Covenantors and/or their respective associates to us, and after decision by the independent non-executive Directors and approval by the Board and/or Shareholders as required under the relevant laws and regulations (including but not limited to the GEM Listing Rules) and in accordance with the Memorandum and Articles, has declined in writing such opportunity to invest, participate, be engaged in or operate the Restricted Business, and that the principal terms by which the Covenantors (or their respective associates) subsequently invests, participates, engages in or operates the Restricted Business are no more favourable than those offered to the member of the Enlarged Group.

Pursuant to the Deed of Non-competition, the above restrictions would only cease to have effect upon the earliest of the date on which: (i) the Shares cease to be listed on the Stock Exchange; and (ii) in relation to each Covenantor, such Covenantor or its or his or her associate ceases to hold an equity interest in the Company and (iii) the relevant Covenantor and/or their respective associates jointly or severally are entitled to exercise or control the exercise of less than 30% in aggregate of the voting power at general meetings of the Company.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

For so long as the Deed of Non-competition remains effective, the Company will adopt the following measures to manage conflict of interests arising from competing business (if any) of MML and the Controlling Shareholders and to safeguard the interests of the Shareholders:

- (i) the independent non-executive Directors will review at least annually the compliance by the Covenantors of the Deed of Non-competition and, if necessary, seek advice from consultants who possess the relevant industry experience of the Target Group's business, at least on an annual basis;
- (ii) each of the Covenantors has undertaken that, if requested by the Company, it or he or she will issue a letter to the Company, confirming its or his or her full compliance with the relevant terms of the Deed of Non-competition and consenting to the Company's disclosure of the contents of such letter in the annual report of the Company and/or such other document as otherwise published by the Company;
- (iii) each of the Covenantors has undertaken to provide all information requested by the Company from time to time to ascertain compliance by the Covenantors of its or his or her obligations under the Deed of Non-competition;
- (iv) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of the Company; and
- (v) each of the Covenantors will make an annual declaration in relation to compliance with the Deed of Non-competition and the Company will disclose the content of the written confirmation given by the Covenantors referred to in (ii) above in the annual reports of the Company.

NON-DISPOSAL UNDERTAKINGS

The Controlling Shareholders and Mr. Li Rubo have provided non-disposal undertakings to the Stock Exchange pursuant to Rules 13.16A and 13.19 of the GEM Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

DIRECTORS

The Company's Board is responsible and has general powers for the management and conduct of the business. As at the Latest Practicable Date, the Board comprised of three executive Directors, namely Mr. Lee Jong-Dae, Mr. Lee Sung Min and Mr. Kim Beom Soo, and three independent non-executive Directors, namely Mr. David Marc Boulanger, Mr. Christopher John Parker and Mr. Chan Sze Hon. The Company's independent non-executive Directors provide advice to us on compliance, corporate governance, development and business strategies. Upon Completion, it is expected that Mr. Emory Williams and Mr. Li Rubo will be appointed as executive Directors. The following sets forth information regarding members of the Board immediately after Completion:

Name	Age	Position
Mr. LEE Jong-Dae	51	Chairman and executive Director
Mr. Emory WILLIAMS	53	Proposed executive Director
Mr. LI Rubo	52	Proposed executive Director
Mr. David Marc BOULANGER	46	Independent non-executive Director
Mr. Christopher John PARKER	42	Independent non-executive Director
Mr. CHAN Sze Hon	37	Independent non-executive Director

Executive Directors

Mr. LEE Jong-Dae (李鍾大), aged 51, is the Chairman and an executive Director of the Company, and is responsible for the Group's overall strategy planning and business development. Mr. Lee joined the Group in August 2007 as an executive Director and was appointed the Chairman of the Company on 17 August 2007. Mr. Lee received his Bachelor of Arts degree with major in Economics from Haverford College and holds a Juris Doctor degree from Georgetown University, Washington, D.C. He was a lawyer qualified in Washington D.C. of the United States and has worked as a lawyer and an investment banker. During the period from November 1988 to May 1997, and from April 2002 to November 2005, Mr. Lee worked at Coudert Brothers and held the position of a partner between January 1996 to May 1997, and the position of a foreign registered lawyer between April 2002 and November 2005. During the period from May 1997 to April 2002, Mr. Lee held a number of positions in various conglomerates, banks and law firm, including managing director of Hansol Capital Limited, senior advisor to Tong Yang Group in Korea, director of investment banking and head of Korea market coverage of Rabobank International in Hong

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Kong, director of regional structured transactions and head of Korea of Citigroup in Hong Kong and senior foreign legal consultant of Lee International IP and Law Group. He was also an executive director of China HealthCare Holdings Limited (Stock Code: 673), a consumer and healthcare services company listed on the Main Board of the Stock Exchange between July 2004 and August 2009, and a non-executive director of AsianLogic Limited, a diversified Asia Pacific online and land-based gaming company listed on Alternative Investment Market (“AIM”) of the London Stock Exchange between January 2008 to June 2009.

Proposed Executive Directors

Mr. Emory WILLIAMS, aged 53, will be appointed as executive Director of the Company upon Completion on the date of Completion, and will be responsible for the Group’s business development and investment decisions. He obtained a Bachelor of Arts from Middlebury College in 1978 and an Master of Business Administration from Northwestern University, Kellogg Graduate School of Management in 1980. Mr. Williams was formerly a Chartered Practicing Accountant with Ernst & Young in the U.S. between 1980 and 1983. From 1983 to 1988, Mr. Williams was the chief executive officer of Perry Properties Limited, a real estate development company in USA. Since 1988 and up to now, Mr. Williams has been working for his family business at Williams Realty Co, LLC and Williams & Nichols, which focused on development and redevelopment projects in USA. In 1994, Mr. Williams founded AIC which has invested in SureBlock Company, a PRC-based manufacturer of modular concrete building systems. In 2003, he and Mr. Li Rubo co-founded IMM, a company whose shares have been listed on the Main Board of the Stock Exchange since 10 February 2010, and was a director of IMM from 16 May 2006 to 4 December 2009. Mr. Williams has also served in various community and volunteer capacities, including being elected as chairman of the American Chamber of Commerce in China in 2005 and 2006.

Mr. LI Rubo (李汝波), aged 52, will be appointed as executive Director of the Company upon Completion on the date of Completion, and will be responsible for the Group’s overall strategy planning and sales and marketing strategy development. He obtained a Bachelor’s degree in Surface Mining from Fuxin Mining Institute (currently known as Liaoning Technical University (遼寧工程技術大學)) of Liaoning Province, PRC in 1981 and a Master’s degree in Mining Engineering from South Dakota School of Mines, U.S. in 1998. From 1982 to 1985, Mr. Li was a mining engineer at the infrastructure construction department of China National Coal Ministry (中國煤炭工業部). From 1995 to May 2006, Mr. Li was the chairman and chief executive officer of GFT, which mainly invests in concrete and concrete-related enterprises. In 2003, Mr. Li and Mr. Williams co-founded IMM, which was initially engaged mainly in the manufacturing of hydraulic roof supports for underground coal mining. Mr. Li is currently a non-executive director of IMM, a company whose shares have been listed on the Main Board of the Stock Exchange since 10 February 2010, and a director of Jiasmusi Machinery, Jixi Machinery and Huainan Longwall.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Independent non-executive Directors

Mr. David Marc BOULANGER (柏大衛), aged 46, is an independent non-executive Director of the Company. Mr. Boulanger joined the Group in August 2007 and was appointed an independent non-executive Director on 17 August 2007. He obtained honours bachelor of science degree in chemical engineering from University of Waterloo in 1987. He has more than 23 years of experience in the manufacturing and supply chain industry. He was chief executive officer of New-Form Manufacturing Co. Ltd. from 1987 to 2002 and the chairman of Supplierpipeline Inc. from 2001 to present. Between 2001 and 2009, he served as Chairman at Supplierpipeline Inc.. He is also a director of Northman Holdings Inc., a company that owns Supplierpipeline Inc., which is engaged in the distribution of both professional and do-it-yourself products, such as ladders and work shop tools and accessories and also owns Lite Products Inc., a company engaged in the manufacture of ladders and other climbing products under proprietary brand names including “LITE” “EAGLE”, and “GRIFFIN”.

Mr. Christopher John PARKER, aged 42, is an independent non-executive Director of the Company. Mr. Parker joined the Group in August 2007 and was appointed an independent non-executive Director on 17 August 2007. He had also been an executive director of Asian Logic Limited, a company listed on AIM of the London Stock Exchange during the period from January 2008 to June 2009, which is engaged in online gaming and multiplayer games, live video streaming, casino gaming and related business. He has been a director of The Tressider-Tuohy Group (Hong Kong) Limited, an independent financial services firm, since 2003. Mr. Parker graduated from Chaucer School (now officially known as Chaucer Business and Enterprise College) in Sheffield, England in 1984 and thereafter has served five years of military service with the British Forces Coldstream Guards. After serving with the British Forces Coldstream Guards, he then worked with the British government in Hong Kong for 5 years.

Mr. CHAN Sze Hon (陳思翰), *ACCA, CPA*, aged 37, is the an independent non-executive Director of the Company. Mr. CHAN joined the Group in February 2008 and was appointed an independent non-executive Director on 25 February 2008. He obtained a Bachelor of Arts Degree in Accountancy from City University of Hong Kong in 1995 and a Master Degree in Corporate Finance from The Hong Kong Polytechnic University in 2007. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants since 2005 and was admitted as a fellow member of The Association of Chartered Certified Accountants since 2003. He has over 13 years experience in accounting and financial management. During his tenure at Deloitte Touche and Tohmatsu, Mr. Chan was an accountant from October 1995 to June 2000 and a manager from July 2000 to March 2004. He was a Chief Financial Officer of HealthWorks (Holdings) Co Ltd from March 2004 to March 2005. Mr. Chan is currently an executive director and chief financial officer of Fantasia Holdings Group Co., Ltd, a company listed on the Main Board of the Stock Exchange (Stock Code: 1777). He is also a non-executive director of Greater China Holdings

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 431) and was its executive director during the period from 18 July 2005 to 12 October 2008. Mr. Chan is also an independent non-executive director of China Mining Resources Group Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 340), and China AV Group Holdings Limited (formerly known as Blu Spa Holdings Limited), a company listed on GEM (Stock Code: 8176).

Save as disclosed above, there are no other matters concerning the appointment of each of the proposed executive Directors that need to be brought to the attention of the Shareholders and the Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

SENIOR MANAGEMENT

Existing Senior Management

Mr. LEUNG Ka Wo (梁家和), *AICPA*, aged 35, is the Finance Director and Company Secretary of the Company, and is responsible for the accounting and financial aspects as well as corporate secretarial function of the Group. Mr. Leung joined the Group in January 2008. He holds a Bachelor of Arts Degree in Accountancy from Seattle University, Seattle, Washington, USA. He is a member of the American Institute of Certified Public Accountants and Certified Public Accountants, California, USA. He has over 10 years of experience in auditing and accounting, and had worked as a manager for Deloitte Touche Tohmatsu, an international accounting firm, before joining the Company.

Mr. David LENG, aged 63, is the General Counsel of the Company, and is responsible for legal function of the Group. Mr. Leng joined the Group in February 2008. He holds a Juris Doctor degree from Harvard University, Cambridge, Massachusetts, USA. He has over thirty years of work experience, including serving as a senior lawyer of the Asian Development Bank based in Manila, Philippines between April 1979 and August 1985, the head of the legal departments for the Asian operations of Digital Equipment Corporation between September 1985 and December 1996 and Kraft Foods Asia Limited between January 1997 and May 2002, as well as a legal consultant of China Healthcare Holdings, Methanex Asia Pacific Limited and International Project and Mediation Associates on a part-time basis between 2002 and June 2008.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Proposed Senior Management

Mr. Phil JIN (金秋), aged 48, is currently the Chief Executive Officer and President of Zhengzhou Siwei, and is responsible for strategy implementation and overall business operations. Mr. Jin joined the Target Group in September 2009. He holds an electronic engineering degree from Changchun Institute of Optics and Fine Mechanics, China in 1983, a Master of Engineering – Optical Engineering from the Chinese Academy of Science in 1986, a Doctor of Philosophy from the Department of Ophthalmology and Visual Science of the University of Chicago in 1995 and an MBA from the University of Pittsburgh in 1997. He has more than 20 years experience in the technology industry, including serving as a manager for international marketing and technical support of Jinlurodi, Inc between 1991 to 1994 a colour specialist for PPG Industries Inc, a coatings and resins technology company in USA, from 1995 to February 1997, a manager of Pantone, Inc. between March 1997 and August 1998, the senior manager – Asia Operation of Pemstar, Inc. between September 1998 and June 2001, the vice president of Hongguan Technologies(s) Pte, Ltd between July 2001 and October 2002, as well as a president and the global chief executive officer of PSM International between November 2002 and December 2008.

Mr. JIA Shaolin (賈紹林), aged 47, is currently the Chief Operation Officer of Zhengzhou Siwei, and is responsible for overall operation of the Target Group. Mr. Jia joined the Target Group in November 2009. He holds a degree in metal materials and heat treatment from Tianjin University of Technology, China in 1984. He has more than 20 years experience in the technology industry, including serving as an operations manager and later as a Vice General Manager of PEMSTAR (Tianjin) Co., Ltd. between October 1999 and December 2002, and between April 2005 and February 2007 respectively, and as the Manufacturing Director of PSM International between April 2007 and September 2009.

COMPANY SECRETARY

Mr. LEUNG Ka Wo (梁家和) Please refer to the paragraph headed “Senior Management” above for the details of the qualification and experience of Mr. Leung.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

EMPLOYEES

As at the Latest Practicable Date, the Group had approximately 6 permanent employees. Immediately following Completion, it is expected that the Enlarged Group will have approximately 1,680 permanent employees. The following table shows a breakdown of the employees by function of (i) the Group as at the Latest Practicable Date; and (ii) the Enlarged Group immediately following Completion:

Function	the Group (as at the Latest Practicable Date)	the Enlarged Group (immediately following Completion)
Management	2	57
Production	0	1,142
Technical personnel (including R&D)	0	71
Sales and marketing	1	24
Administrative personnel	2	307
Financial personnel	1	20
Others	0	59
Total:	<u>6</u>	<u>1,680</u>

During the Track Record Period, the Group has not experienced any significant difficulty in recruiting employees, and have not experienced any significant staff turnover or labour disputes. The Company believes employee relations are satisfactory in general. The Company provides on-the-job training for employees to equip them with the skills and knowledge relevant to their work. The Company has also implemented programs to recognize employees' efforts to further their studies in electronic engineering, computer engineering or related disciplines.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with employees when contributed into the MPF Scheme.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC and the Republic of South Korea based on the applicable basis and rates with the relevant government regulations.

The Directors confirm that the Company has complied with all the relevant laws and regulations on employees benefit schemes.

REMUNERATION POLICY

The Company's Directors and senior management receive compensation in the form of salaries, benefits in kind, discretionary bonuses and options granted under the share option scheme of the Company in relation to the performance of the Group. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to the Group's operations. The Company regularly review and determine the remuneration and compensation package of the Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Company's Directors and the performance of the Group.

The above remuneration policy is expected to continue and will apply to the Directors and senior management of the Enlarged Group after Completion,

THE GROUP'S RELATIONSHIP WITH STAFF

The Group recognises the importance of a good relationship with the employees. The remuneration payable to the employees includes salaries and allowances. The Group continues to provide training to the staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

BOARD COMMITTEES

Audit committee

The Company established an audit committee pursuant to Rule 5.28 of the GEM Listing Rules with written terms of reference in compliance with paragraph C3.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules has been adopted. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversight of internal control procedures of the Company. The audit committee consists of three members, all of which are independent non-executive Directors of the Company, namely Mr. Chan Sze Hon, Mr. Christopher John Parker and Mr. David Marc Boulanger. Mr. Chan Sze Hon is the chairman of the audit committee.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Remuneration committee

The Company established a remuneration committee with written terms of reference in compliance with paragraph B.1.1 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance based remuneration; ensure none of the Directors determine their own remuneration. The remuneration committee consists of three members, all of which are independent non-executive Directors of the Company, namely Mr. Chan Sze Hon, Mr. Christopher John Parker and Mr. David Marc Boulanger. Mr. Chan Sze Hon is the chairman of the remuneration committee.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company will appoint Partners Capital International Limited to be the compliance advisor. The compliance adviser will advise the Company on on-going compliance requirements and other issues under the GEM Listing Rules and other applicable laws and regulations in Hong Kong after the listing of the Company. The key terms of the compliance adviser's agreement entered into between the Company and the compliance adviser are as follows:

- (i) the compliance adviser's appointment for a period commencing on the date of Completion 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 date of Completion, i.e. 31 December, 2011, or until the agreement is terminated, whichever is earlier; and
- (ii) the compliance adviser shall provide the Company with guidance and advice as to compliance with the requirements under the GEM Listing Rules and applicable laws, rules, codes and guidelines.

FINANCIAL INFORMATION OF THE TARGET GROUP

This section should be read in conjunction with the financial statements and accompanying notes of the Target Group prepared in accordance with HKFRSs for the period from 22 February 2007 (date of incorporation) to 31 December 2007, the years ended 31 December 2008 and 2009; and of Zhengzhou Siwei for financial years ended 31 December 2007, 2008 and 2009 set out in Appendix I to this circular.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Such risk and uncertainties include, without limitation, those discussed in the section headed “Risk Factors” of this circular.

The selected financial data set forth below has been extracted from Zhengzhou Siwei’s financial data which is set forth in the Accountants’ Reports on the Target Group included as Appendix I to this circular (the “Financial Information”). As more fully described in Appendix I, the Financial Information has been prepared in accordance with accounting policies in conformity with HKFRSs and in compliance with the disclosure requirements of the GEM Listing Rules.

Investors should read these selected financial data together with “Appendix I – Accountants’ Reports on the Target Group” to this circular and the following discussion and analysis.

OVERVIEW

The Target Group is one of leading hydraulic roof supports manufacturers in the PRC, with a particular focus on manufacturing hydraulic roof supports for mining machinery products. According to the China National Coal Machinery Industry Association, Zhengzhou Siwei was one of the top five hydraulic roof supports manufacturers among the members of the China National Coal Machinery Industry Association in the PRC with market share in respect of sales of hydraulic roof support machinery of approximately 9.0% by units sold in 2008.

The Target’s sole investment is the investment in Zhengzhou Siwei which was financed by loans from the Vendor and an independent third party creditor. The Target carries out the business through Zhengzhou Siwei and has no other operation. Since the Target is an investment holding company for Zhengzhou Siwei investment, the Target does not incur any significant operating and administrative expenses for its business and operation save for finance costs in respect of interest bearing loans due to a third party creditor raised by the Target for the acquisition of Zhengzhou Siwei in 2007 and working capital purpose. Details of the loans are set out in the “Letter from the Board” and “Appendix I – Accountants’ Reports on the Target Group” to this circular.

For the years ended 31 December 2007, 2008 and 2009, Zhengzhou Siwei’s turnover amounted to approximately RMB563,531,000, RMB1,008,540,000 and RMB1,236,197,000, respectively. Zhengzhou Siwei’s profit for the same year and total comprehensive income for the year attributable to equity holders of Zhengzhou Siwei was approximately RMB18,629,000, RMB65,517,000 and RMB124,910,000 respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

BASIS OF PRESENTATION

On 9 June 2003, Zhengzhou Siwei was established when Huanghe Factory was converted into a domestic limited liability enterprise and changed its name to “鄭州四維機電設備製造有限公司”. Zhengzhou Siwei’s then equity holders entered into a share transfer agreement with the Target on 20 March 2007, pursuant to which the then equity holders of Zhengzhou Siwei agreed to sell 25% equity interest in Zhengzhou Siwei in aggregate to the Target. As a result, Zhengzhou Siwei became a Sino-foreign equity joint venture on 20 April 2007. Pursuant to a share transfer agreement dated 17 September 2007, all the then individual equity holders of Zhengzhou Siwei agreed to sell their entire 75% equity interest in aggregate in Zhengzhou Siwei to the Target. As a result, Zhengzhou Siwei became a wholly-owned subsidiary of the Target and a wholly-owned foreign enterprise on 24 September 2007. Results of Zhengzhou Siwei are consolidated into the accounts of the Target following acquisition of the 75% equity interest.

Further details are set out in “Appendix I – Accountants’ Reports on the Target Group” to this circular.

FACTORS AFFECTING ZHENGZHOU SIWEI’S RESULTS OF OPERATION AND FINANCIAL CONDITION

Zhengzhou Siwei’s results of operation and financial condition have been, and will continue to be, affected by a number of factors, including those set out below.

Economic development and demand for coal products in the PRC

During the Track Record Period, all of Zhengzhou Siwei revenue was derived from sales in the PRC. The business of Zhengzhou Siwei is, in general, broadly affected by the level of coal exploration and production activities in the PRC. As coal is the major resource in the PRC for generating electricity, the coal price and the demand for coal are sensitive to the economic development in the PRC. These will affect the level of coal exploration and production activities in the PRC, and, in turn, affect the financial condition and results of Zhengzhou Siwei.

Pricing of Zhengzhou Siwei’s products

The pricing of Zhengzhou Siwei’s products is largely subject to market competition and demand. Zhengzhou Siwei sells its products to customers on a “cost-plus” basis, under which Zhengzhou Siwei adds its processing charges to the prevailing market price of steel and retains certain profit. In order to improve the margin, Zhengzhou Siwei will continue to improve its hydraulic roof support products and introduce new hydraulic roof support products by emphasizing research and development.

FINANCIAL INFORMATION OF THE TARGET GROUP

Cost of raw materials

Price fluctuations of raw materials Zhengzhou Siwei uses in its production process affect its cost of sales and could adversely affect its results of operations and financial condition. The principal raw material for the production of Zhengzhou Siwei's hydraulic roof supports products is steel. The price of steel is generally affected by the supply and demand of its commodity. In 2007, 2008 and 2009, Zhengzhou Siwei's cost of raw materials amounted to approximately RMB422,959,000, RMB810,305,000 and RMB923,224,000, respectively, representing approximately 92%, 93% and 89% of its total cost of sales. Zhengzhou Siwei does not engage in hedging transactions for hedging the fluctuation in raw materials price. Normally the product selling price is fixed once a sales contract is signed with the customers and the sales contracts have not provided for contract price adjustments in case of raw material prices increase. However, in practice, in order to avoid erosion in gross profit margin, when there is major increase in prices of raw materials, Zhengzhou Siwei will re-negotiate with its customers for upward adjustment in product price to partially shift the increase in cost of raw materials to its customers. In addition, Zhengzhou Siwei adopts procurement practices and pricing strategies to mitigate the risks from fluctuations in raw materials prices. As outlined in the paragraph headed "Procurement" in the "Business of the Target Group" section of this circular, Zhengzhou Siwei only purchases raw materials, particular steel, once orders are confirmed. The average lead time for the Target Group's production of hydraulic roof supports is typically between two to three months depending on the complexity of the product. The Target Group will take into account historical steel price trend and predicted steel price for coming two to three months to determine the price quotations for customers. This will assist the Target Group to avoid erosion in gross profit margin. Moreover, Zhengzhou Siwei maintains multiple suppliers for steel, certain machinery components and parts, and other raw materials in order to minimise its reliance on a small number of key suppliers. Also, Zhengzhou Siwei has been exercising bulk purchasing where possible with an effort to obtain more favourable pricing terms from its suppliers. During the Track Record Period, Zhengzhou Siwei has, to a certain extent, been able to pass on some additional costs resulting from increase in prices of raw materials to its customers. Should Zhengzhou Siwei not be able to pass on the increase in cost of raw materials entirely to its customers, financial conditions and results of operations of Zhengzhou Siwei will be adversely affected.

Taxation

Zhengzhou Siwei's profit is affected by tax exemptions and preferential tax treatments that it enjoys. Further details with respect to Zhengzhou Siwei's tax exemptions and preferential tax treatments are set out in Note 9 in the Accountants' Report on Zhengzhou Siwei in Appendix I to this circular. Since 1 January 2008, Zhengzhou Siwei no longer enjoys the tax exemptions and preferential treatments available to foreign-invested enterprises as a result of the passing of the new

FINANCIAL INFORMATION OF THE TARGET GROUP

PRC enterprise income tax law on 16 March 2007 which includes the unification of the enterprise income tax rate at 25%. Zhengzhou Siwei is currently accredited as a high and new technology enterprise and such qualification will expire on 13 November 2011. In order to maintain its status as a high and new technology enterprise accredited by competent authorities, an enterprise shall comply with certain conditions as detailed in the paragraph headed “The preferential tax treatment on high and new technology enterprise the Target Group currently enjoys may be discontinued” of the “Risk Factors” section. As a high and new technology enterprise, Zhengzhou Siwei is entitled to the preferential income tax treatment of 15%. Zhengzhou Siwei shall apply for the preferential tax treatment with competent tax authority every year during the valid period of its high and new technology enterprise qualification. If the relevant approval is granted by the competent tax authority, Zhengzhou Siwei may enjoy the preferential tax treatment accordingly. Based on the application made by Zhengzhou Siwei to competent tax authority in April 2009, the research and development expenses amounted to approximately RMB17.2 million, RMB30.6 million and RMB36.9 million, representing approximately 3.1%, 3.0% and 3.0% of turnover of Zhengzhou Siwei for the three years ended 31 December 2007, 2008 and 2009 respectively. The valid period for the status as a high and new technology enterprise is 3 years. The enterprise is required to file re-examination applications three months prior to the expiration of the valid period of its current high and new technology enterprise qualification. The enterprise is allowed to apply for the preferential tax treatment if it passes the re-examination and obtains the updated high and new technology enterprise qualifications. If such approval is granted, the enterprise will be entitled to the reduced tax rates for certain period as approved by relevant tax authority. Termination or revision of any of such preferential tax treatments which Zhengzhou Siwei currently enjoys could have a negative impact on its results of operations and financial condition.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The directors of Zhengzhou Siwei have identified certain accounting policies that are significant to the preparation of Zhengzhou Siwei’s financial statements. These significant accounting policies are important for an understanding of our financial condition and results of operations and are set forth in Note 2 “Significant accounting policies” of the Accountants’ Report on Zhengzhou Siwei in Appendix I to this circular. The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set forth in Note 3 “Critical judgements and key estimates” of the Accountants’ Report on Zhengzhou Siwei in Appendix I to this circular. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as property, plant and equipment and intangible assets, impairment loss for bad and doubtful debts and allowance for slow-moving inventories.

In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. The directors of Zhengzhou Siwei believe the following significant accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements:

FINANCIAL INFORMATION OF THE TARGET GROUP

Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Zhengzhou Siwei and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2% – 5%
Plant and machinery	10% – 20%
Office equipment	20%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from Zhengzhou Siwei's products development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

FINANCIAL INFORMATION OF THE TARGET GROUP

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when Zhengzhou Siwei becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; Zhengzhou Siwei transfers substantially all the risks and rewards of ownership of the assets; or Zhengzhou Siwei neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to Zhengzhou Siwei and the amount of revenue can be measured reliably.

Revenue from the sales of manufactured goods and trading of raw material are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers.

FINANCIAL INFORMATION OF THE TARGET GROUP

Consultancy fee income is recognised when the service is rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from financial guarantee contracts issued is recognised on a straight-line basis over the term of the guarantee contracts.

Impairment of assets

At the end of each reporting period, Zhengzhou Siwei reviews the carrying amounts of its tangible and intangible assets except inventories and receivables 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, Zhengzhou Siwei 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 or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the 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.

FINANCIAL INFORMATION OF THE TARGET GROUP

PRINCIPAL INCOME STATEMENT COMPONENTS

All of Zhengzhou Siwei's revenue is generated from the sale of mining machinery products. Zhengzhou Siwei's selling products are broadly classified into two principal product categories, namely, mining machineries and spare parts.

The following table shows Zhengzhou Siwei's revenue and sales volume by product categories for the years indicated:

	For the year ended 31 December					
	2007		2008		2009	
	<i>Sales</i>	<i>Approximate</i>	<i>Sales</i>	<i>Approximate</i>	<i>Sales</i>	<i>Approximate</i>
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Sales of mining machineries	548,882	97	984,536	98	1,178,246	95
Sales of spare parts	14,649	3	24,004	2	57,951	5
Total	<u>563,531</u>	<u>100</u>	<u>1,008,540</u>	<u>100</u>	<u>1,236,197</u>	<u>100</u>

Cost of goods sold

Zhengzhou Siwei's cost of goods sold consists of the costs of production which include the following:

- Direct materials
- Direct labour
- Manufacturing expenses

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets out the principal components of Zhengzhou Siwei's cost of goods sold as a percentage of its total cost of goods sold for the years indicated:

	For the year ended 31 December					
	2007		2008		2009	
	<i>cost</i> RMB'000	<i>Approximate % of total cost of goods sold</i>	<i>cost</i> RMB'000	<i>Approximate % of total cost of goods sold</i>	<i>cost</i> RMB'000	<i>Approximate % of total cost of goods sold</i>
Direct materials	422,959	92%	810,305	93%	923,224	89%
Direct labour	21,641	5%	39,064	4%	60,865	6%
Manufacturing expenses	15,397	3%	24,207	3%	48,009	5%
Total	<u>459,997</u>	<u>100%</u>	<u>873,576</u>	<u>100%</u>	<u>1,032,098</u>	<u>100%</u>

The following table sets out the breakdown of Zhengzhou Siwei's direct materials for the years indicated:

	For the year ended 31 December					
	2007		2008		2009	
	<i>cost</i> RMB'000	<i>Approximate % of total cost of goods sold</i>	<i>cost</i> RMB'000	<i>Approximate % of total cost of goods sold</i>	<i>cost</i> RMB'000	<i>Approximate % of total cost of goods sold</i>
Steel	370,088	87%	741,320	91%	812,780	88%
Valve component	20,978	5%	52,477	7%	56,502	6%
Others	31,893	8%	16,508	2%	53,942	6%
Total	<u>422,959</u>	<u>100%</u>	<u>810,305</u>	<u>100%</u>	<u>923,224</u>	<u>100%</u>

Gross profit

During the Track Record Period, Zhengzhou Siwei's gross profit, which is equal to revenue less cost of goods sold, was approximately RMB103,534,000, RMB134,964,000 and RMB204,099,000 respectively. Zhengzhou Siwei's gross profit margin, which is equal to gross profit divided by revenue, was approximately 18.4%, 13.4% and 16.5%, respectively, for the same period. The decrease in Zhengzhou Siwei's gross profit and gross profit margin in 2008 was mainly due to the increase in price of steel, which is a major component of the cost of products, was greater than the increase in selling price.

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets out Zhengzhou Siwei's gross profit and gross profit margin by product categories for the years indicated:

	For the year ended 31 December					
	2007		2008		2009	
	<i>Gross Profit</i>		<i>Gross Profit</i>		<i>Gross Profit</i>	
	<i>Gross Profit</i>	<i>Margin Approximate</i>	<i>Gross Profit</i>	<i>Margin Approximate</i>	<i>Gross Profit</i>	<i>Margin Approximate</i>
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Mining machineries	98,745	18.0	129,536	13.2	194,905	16.5
Spare parts*	4,789	32.7	5,428	22.6	9,194	15.9

**Note:* Given the magnitude in volume purchased by a customer in 2009, a special price was granted to this customer for the purchase of related spare parts. Excluding this client's order, the margin for spare parts would have been approximately 22.9%. Such event has rarely occurred during the Track Record Period.

Other income

Zhengzhou Siwei's other income primarily includes government grants, gain on the sale of scrap materials, gain on trading of raw materials, consultancy fee income, gain on disposals of property, plant and equipment, interest income and others. Government grants mainly represent various kinds of subsidies received from Zhengzhou government. Zhengzhou Siwei has received government grants in recognition of the contributions it made to the local economy with respect to the establishment of infrastructure and the contribution it made in relation to the development of the manufacturing technologies and processes and to subsidise Zhengzhou Siwei for its business development expenses. These subsidies are made on a discretionary basis, and they are one-off and non-recurrent. There are no unfulfilled conditions or contingencies attached to the government grants currently reflected in Zhengzhou Siwei's financial statements.

Selling expenses

Zhengzhou Siwei's selling expenses primarily consist of market development cost, freight costs, after-sales services fees and other fees relating to sales and marketing. For the years ended 31 December 2007, 2008 and 2009, the selling expenses represented approximately 7.0%, 4.3% and 4.8% of Zhengzhou Siwei's total revenue respectively.

Administrative and other operating expenses

Zhengzhou Siwei's administrative and other operating expenses primarily consist of salaries for administrative staff, various employee welfare contributions, subsidies, housing and social insurance for administrative staff, depreciation of office equipment, entertainment expenses and miscellaneous expenses related to administration. For the years ended 2007, 2008 and 2009, administrative and other operating expenses represented approximately 3.1%, 3.0% and 2.9% of Zhengzhou Siwei's total revenue respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

Finance costs

Finance costs consist of interest payments on bank loans, the interest for bank notes discounting, finance lease charges, finance services charges and interests payable to loan from a related company. For the years ended 2007, 2008 and 2009, finance costs represented approximately 0.4%, 0.3% and 0.7% of Zhengzhou Siwei's total revenue respectively.

Taxation

For the years ended 2007, 2008 and 2009, Zhengzhou Siwei's effective tax rate was approximately 11.2%, 18.3% and 15.6%, respectively.

PRC income tax

For the period from 1 January 2007 and up to 20 April 2007, Zhengzhou Siwei was a domestic enterprise operating in Zhengzhou High and New Technology Industries Development Zone and were approved as a new and high technology enterprise which is subject to a 15% applicable tax rate.

On 16 March 2007, the New Income Tax Law introduces changes which include the unification of the enterprise income tax rate for domestic and foreign enterprise at 25%. The New Income Tax Law became effective from 1 January 2008. In accordance to the New Income Tax Law, only sino-foreign equity joint ventures or wholly foreign owned enterprises established before 16 March 2007 may continue enjoying the preferential tax treatments after 1 January 2008 and with a maximum period of five years starting from 1 January 2008.

Zhengzhou Siwei became a Sino-foreign equity joint venture on 20 April 2007 and a wholly foreign owned enterprise on 24 September 2007. In accordance to the relevant laws and regulations of the PRC, after Zhengzhou Siwei became a Sino-foreign equity joint venture, it is exempted from the PRC enterprise income tax for two years starting from the first profit-making year and eligible for a 50% relief of the PRC enterprise income tax for the following three years. The first profit making year of Zhengzhou Siwei was for the financial year ended 31 December 2007 and it was exempted from the PRC enterprise income tax for eight months from May 2007 to December 2007. But according to the New Income Tax Law, Zhengzhou Siwei could no longer enjoy the preferential tax treatments from 1 January 2008.

However, since Zhengzhou Siwei operated in Zhengzhou High and New Technology Industries Development Zone and were approval as a new and high-technology enterprise, for the years ended 31 December 2008 and 2009, it was subject to an income tax at a rate of 15%.

FINANCIAL INFORMATION OF THE TARGET GROUP

Republic of Mauritius profits tax

Zhengzhou Siwei is not subject to the Republic of Mauritius profits tax as it had no assessable income arising in or derived from the Republic of Mauritius during the Track Record Period.

Hong Kong profits tax

Zhengzhou Siwei is not subject to Hong Kong profits tax as it had no assessable income arising in or derived from Hong Kong during the Track Record Period.

RESULTS OF OPERATIONS

The following table sets forth Zhengzhou Siwei's results of operations for the years indicated:

	For the year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	563,531	1,008,540	1,236,197
Cost of goods sold	<u>(459,997)</u>	<u>(873,576)</u>	<u>(1,032,098)</u>
Gross profit	103,534	134,964	204,099
Other income	6,744	22,158	47,324
Selling expenses	(39,221)	(43,647)	(59,606)
Administrative expenses	(16,097)	(28,390)	(33,136)
Other operating expenses	<u>(1,191)</u>	<u>(1,619)</u>	<u>(2,584)</u>
Profit from operations	53,769	83,466	156,097
Finance costs	(2,232)	(3,295)	(8,107)
Loss on disposal of a subsidiary	<u>(30,565)</u>	<u>–</u>	<u>–</u>
Profit before tax	20,972	80,171	147,990
Income tax expense	<u>(2,343)</u>	<u>(14,654)</u>	<u>(23,080)</u>
Profit for the year and total comprehensive income for the year attributable to equity holders of Zhengzhou Siwei	<u><u>18,629</u></u>	<u><u>65,517</u></u>	<u><u>124,910</u></u>

FINANCIAL INFORMATION OF THE TARGET GROUP

Comparison of the year ended 31 December 2009 and 2008

Revenue

Revenue increased by approximately 22.6% from approximately RMB1,008,540,000 in 2008 to approximately RMB1,236,197,000 in 2009. The increase in revenue was mainly due to an approximately 36% increase in units of machinery sold and an approximately 12% decrease in average selling price of Zhengzhou Siwei's products. A total of 5,517 units of Zhengzhou Siwei's mining machineries were sold with average selling price of approximately RMB213,566 per unit in 2009.

Cost of sales

Cost of sales increased by approximately 18.1% from approximately RMB873,576,000 in 2008 to approximately RMB1,032,098,000 in 2009. Though raw materials prices decreased, cost of sales increased due to a bigger increase in sales volume of Zhengzhou Siwei's products.

Gross profit

Zhengzhou Siwei's gross profit increased by approximately 51.2% from approximately RMB134,964,000 in 2008 to approximately RMB204,099,000 in 2009. Zhengzhou Siwei's overall gross profit margin increased from approximately 13.4% in 2008 to approximately 16.5% in 2009, mainly because of the greater magnitude of decrease in average raw material prices than that of decrease in average selling price of Zhengzhou Siwei's products.

Other income

Other income increased by approximately 113.6% from approximately RMB22,158,000 in 2008 to approximately RMB47,324,000 in 2009 mainly due to (i) increased gain from trading of raw materials of approximately RMB2,723,000, (ii) an increase in the interest revenue of approximately RMB1,427,000, and (iii) an increase in sales of scrap materials of approximately RMB17,878,000.

Selling expenses

Selling expenses increased by approximately 36.6% from approximately RMB43,647,000 in 2008 to approximately RMB59,606,000 in 2009. This increase was mainly due to the increase in sales volume, the increase of transportation charges incurred, the increase of sales and marketing expenses resulting from the boosted sales effort for Zhengzhou Siwei's products.

FINANCIAL INFORMATION OF THE TARGET GROUP

Administrative and other operating expenses

Administrative and other operating expenses increased by approximately 19.0% from approximately RMB30,009,000 in 2008 to approximately RMB35,720,000 in 2009. This increase was primarily due to the expansion of Zhengzhou Siwei, an increase of management staff and R&D staff, an increase in the amount of depreciation, staff salaries, employee benefit expenses and payment of social insurance mandated under PRC laws.

Finance costs

Zhengzhou Siwei's finance costs increased by approximately 146.0% from approximately RMB3,295,000 in 2008 to approximately RMB8,107,000 in 2009. This increase was mainly due to an increase in outstanding bank borrowings of RMB98,500,000, resulting in the increase in interest expense for bank borrowings.

Profit before tax

Zhengzhou Siwei recorded profit before tax of approximately RMB80,171,000 in 2008 and profit before tax of approximately RMB147,990,000 in 2009. This increase was primarily due to an increase in revenue and gross profit.

Taxation

Zhengzhou Siwei's income tax expense was approximately RMB23,080,000 in 2009 compared with approximately RMB14,654,000 in 2008, due to an increase in profit.

Profit for the year

Zhengzhou Siwei recorded profit for the year of approximately RMB65,517,000 in 2008 and profit for the year of approximately RMB124,910,000 in 2009. This increase was mainly due to an increase in gross profit and other factors including increase in other income. For the purpose of sensitivity analysis, profit for the year ended 31 December 2009 will decrease/increase by approximately RMB34.3 million and RMB68.6 million as a result of an increase/decrease in steel costs of 5% and 10% respectively with sales price held constant.

FINANCIAL INFORMATION OF THE TARGET GROUP

Comparison of year ended 31 December 2008 and 2007

Revenue

Revenue increased by approximately 79.0% from approximately RMB563,531,000 in 2007 to approximately RMB1,008,540,000 in 2008. The increase in revenue was mainly due to increased market demand for and the selling price of Zhengzhou Siwei's hydraulic roof supports products used in the coal mining industry. This resulted in both an increase in machinery sales volume and selling price of Zhengzhou Siwei's products in 2008. The sales volume increased from 3,327 units to 4,069 units and average selling price increased from approximately RMB164,978 to approximately RMB241,960.

Cost of sales

Cost of sales increased by approximately 89.9% from approximately RMB459,997,000 in 2007 to approximately RMB873,576,000 in 2008, as a result of increased sales volume. The magnitude of increase in cost of sales was greater than the increase in revenue mainly due to the fact that the magnitude of increase in average selling price of Zhengzhou Siwei's products was less than that in unit cost during the year. In 2008, the cost of direct materials of steel increased by approximately 100.3% when compared with 2007. The selling price of products of outstanding contracts carried forward from 2007 were determined in contracts signed in 2007 at a lower price than that in 2008. As a result, when the products were manufactured in 2008 according to the contract signed in 2007, the magnitude of increase in cost was greater than the increase in selling price.

Gross profit

Zhengzhou Siwei's gross profit increased by approximately 30.4% from approximately RMB103,534,000 in 2007 to approximately RMB134,964,000 in 2008. Zhengzhou Siwei's overall gross profit margin decreased from approximately 18.4% in 2007 to approximately 13.4% in 2008. The decrease in the gross profit of Zhengzhou Siwei's products was mainly due to outstanding contracts in 2007 being carried forward to 2008, where the selling price for products in 2007 was lower than that in 2008 while the product cost was higher which was primarily due to the macroeconomic factors in the PRC and the increase in the price of steel. The sales from these carried forward outstanding contracts amounted to approximately RMB333,455,000, representing approximately 33.1% of the total revenue in 2008. It is the normal practice of Zhengzhou Siwei to carry forward those outstanding contracts at year end to the next year.

Other income

Other income increased significantly by approximately 228.6% from approximately RMB6,744,000 in 2007 to approximately RMB22,158,000 in 2008 mainly due to (i) the gain on sales of scrap materials rose from approximately RMB3,544,000 in 2007 to approximately RMB16,842,000 in 2008, with an increase of approximately RMB13,298,000 and (ii) gain on trading of raw materials increased from approximately RMB285,000 in 2007 to approximately RMB3,502,000 in 2008, with an increase of approximately RMB3,217,000.

FINANCIAL INFORMATION OF THE TARGET GROUP

Selling expenses

Selling expenses increased by approximately 11.3% from approximately RMB39,221,000 in 2007 to approximately RMB43,647,000 in 2008. This increase was mainly due to the increase of sales and marketing expenses and transportation charges resulting from the increase in sales volume. The transportation charge for a unit of product in 2008 was lower than that in 2007, therefore the magnitude of increase in sales expenses was significantly lower than that in sales volume due mainly to the achievement of economies of scale.

Administrative and other operating expenses

Administrative and other operating expenses increased by approximately 73.6% from approximately RMB17,288,000 in 2007 to approximately RMB30,009,000 in 2008. This increase was primarily due to increased salaries for Zhengzhou Siwei's staff and labour insurance expenses resulting from higher headcount and depreciation. Some of Zhengzhou Siwei's directors did not receive any remuneration during the Track Record Period as it is mutually agreed among them that they would not get compensated by Zhengzhou Siwei during its growing stage. There was no arrangement under which a director waived or agreed to waive any emoluments during the Track Record Period.

Finance costs

Zhengzhou Siwei's finance costs increased by approximately 47.6% from approximately RMB2,232,000 in 2007 to approximately RMB3,295,000 in 2008. This increase was primarily due to the increase of financial service charges, the interest on bank borrowings and the interest on loan from a related company in 2008.

Loss on disposal of a subsidiary

In 2007, the disposal of a subsidiary resulted in a loss of approximately RMB30,565,000.

Profit before tax

Zhengzhou Siwei's profit before tax increased significantly by approximately 282.3% from approximately RMB20,972,000 in 2007 to approximately RMB80,171,000 in 2008. This increase was primarily due to the substantial increase in revenue and other factors as described above.

Taxation

Zhengzhou Siwei's income tax expense increased significantly by 525.4% from RMB2,343,000 in 2007 to RMB14,654,000 in 2008 mainly due to an increase in profit before tax and the tax exemption policies enjoyed by Zhengzhou Siwei in 2007. Zhengzhou Siwei's effective tax rates in 2007 and 2008 were approximately 11.2% and 18.3% respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

Profit for the year

Zhengzhou Siwei's profit for the year increased significantly by approximately 251.7% from approximately RMB18,629,000 in 2007 to approximately RMB65,517,000 in 2008. This increase was primarily due to an increase in its sales revenue. Zhengzhou Siwei's net profit margin increased from approximately 3.3% in 2007 to approximately 6.5% in 2008. For the purpose of sensitivity analysis, profit for the year ended 31 December 2008 will decrease/increase by approximately RMB30.3 million and RMB60.6 million as a result of an increase/decrease in steel costs of 5% and 10% respectively with sales price held constant.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, Zhengzhou Siwei funded its operations primarily by cash generated from its operations and short-term bank borrowings. Assuming completion of the Proposed Transactions to be successful, Zhengzhou Siwei expects to fund its operations with cash generated from its operations and through short-term bank borrowings and other loans from members of the Enlarged Group. It is expected the Target Group to continue to raise debt to finance its expansion plan and operations for the coming twelve months. The Company will conduct placing exercise to raise further funds for, among other things, loan repayment and financing of capital expenditure requirements of the Target Group. On this basis, the Company considers that it does not intend to raise any material external debt financing for the coming twelve months.

Zhengzhou Siwei had bank and cash balances of approximately RMB15,475,000, RMB3,439,000 and RMB27,180,000 as at 31 December 2007, 2008 and 2009 respectively.

Zhengzhou Siwei had current assets of approximately RMB310,204,000, RMB728,893,000 and RMB1,276,922,000 as at 31 December 2007, 2008 and 2009 respectively. As at 31 December 2009, the key components of its current assets included pledged bank deposits of approximately RMB81,925,000, bank and cash balances of approximately RMB27,180,000, trade and other receivables of approximately RMB963,344,000 and inventories of approximately RMB161,637,000. The increase in current assets during the Track Record Period was mainly due to the increase in trade and other receivables, which was primarily due to the overall business expansion and therefore both the customer base and sales volume have enlarged accordingly. Zhengzhou Siwei had current liabilities of approximately RMB291,197,000, RMB698,161,000 and RMB1,113,582,000 as at 31 December 2007, 2008 and 2009 respectively. As at 31 December 2009, its current liabilities primarily comprised of bank borrowings of approximately RMB127,500,000, trade and other payables of approximately RMB934,300,000 and amount payable to an equity holder of approximately RMB25,368,000.

As at 31 December 2007, 2008 and 2009, Zhengzhou Siwei's net current assets were approximately RMB19,007,000, RMB30,732,000 and RMB163,340,000 respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

The Target Group had net current (liabilities)/assets of approximately HK\$(2.7 million), HK\$68.1 million and HK\$35.8 million as at 31 December 2007, 2008 and 2009 respectively. The current liabilities of the Target Group as at 31 December 2009 and 30 April 2010 include the amount due to TJCC Holdings Ltd. as detailed in the “Letter from the Board” of this circular. As at 30 April 2010, the Target Group had net current assets of approximately HK\$5.3 million.

The Target Group had net assets of approximately HK\$219.7 million as at 31 December 2009.

The following table shows the breakdown of the Target Group’s current assets and current liabilities as at 31 December 2007, 2008, 2009 and 30 April 2010:

	31 December			30 April
	2007	2008	2009	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Current assets				
Inventories	102,783	104,637	183,679	214,690
Trade and other receivables	203,811	596,934	1,094,723	1,253,120
Prepaid land lease payments	113	378	358	358
Amount due from a director of a subsidiary	–	8	23	23
Amounts due from related companies	6,834	97,777	48,296	16,326
Pledged bank deposits	–	24,649	93,097	369,338
Bank and cash balances	18,144	4,054	30,947	28,096
Current liabilities				
Trade and other payables	271,573	664,095	1,061,770	1,364,367
Borrowings	30,851	32,954	300,549	395,790
Warranty and other provisions	1,755	1,875	1,875	9,219
Amount due to ultimate holding company	24,570	23,040	23,018	23,018
Amount due to a director of a subsidiary	167	–	–	–
Amounts due to related companies	5,306	25,030	6,081	22,510
Loans from directors	–	–	–	39,357
Loan from a related company	–	–	–	10,941
Current tax liabilities	160	13,387	22,060	11,460
	<u>160</u>	<u>13,387</u>	<u>22,060</u>	<u>11,460</u>
Net current (liabilities)/assets	<u>(2,697)</u>	<u>68,056</u>	<u>35,770</u>	<u>5,289</u>

FINANCIAL INFORMATION OF THE TARGET GROUP

During the Track Record Period and for the period ended 30 April 2010, inventory of the Target Group increased each period primarily due to increased yearly production volume and the fact that the amount of products sold was expected to increase during such period.

During the Track Record Period and for the period ended 30 April 2010, trade and other receivables of the Target Group increased each period primarily due to the overall business expansion, therefore both the customers base and sales volume have enlarged accordingly.

As at 31 December 2008, the amounts due from related companies of the Target Group increased significantly as a result of more related companies transactions incurred during the year ended 31 December 2008 but settlements not yet received as at year ended 31 December 2008. As at 31 December 2009 and 30 April 2010, the amounts decreased due to settlements received.

During the Track Record Period and for the period ended 30 April 2010, aggregate of pledged bank deposits and bank and cash balances of the Target Group increased each period primarily in line with the overall business expansion. Particularly, more bank and cash balances are arranged as pledged bank deposits because the deposits are at a fixed interest rate of 1.98%.

During the Track Record Period and for the period ended 30 April 2010, trade and other payables of the Target Group increased each period primarily due to purchases of raw materials, reflecting the increases in sales and production volume. Moreover, due to the growth of the Target Group and long relationship with major suppliers was built up, longer credit terms were granted.

During the Track Record Period and for the period ended 30 April 2010, current borrowings of the Target Group increased each period to meet its working capital and expansion needs as a result of expansion of the production capacity. Particularly, as at 31 December 2009, current borrowings of the Target Group increased significantly as a result of change in classification of a borrowing from non current nature to current nature.

As at 30 April 2010, warranty and other provisions increased significantly as a result of recognition of fair value of the cross guarantees.

As at 31 December 2008, amounts due to related companies of the Target Group increased as a result of more related companies transactions incurred during the year ended 31 December 2008 but repayments not yet settled as at year ended 31 December 2008. The amounts decreased as at 31 December 2009 because of settlements made during that year. As at 30 April 2010, the amounts increased mainly due to repayment of borrowings from a related company on behalf of the Target Group.

FINANCIAL INFORMATION OF THE TARGET GROUP

As at 30 April 2010, loans from directors of the Target Group represented repayment of borrowings from directors on behalf of the Target Group.

Cash flows

The following table sets forth certain information regarding Zhengzhou Siwei's cash flows for the years indicated:

	For the year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flow from operating activities	42,015	29,182	39,117
Net cash flow from investing activities	(41,523)	(41,218)	(113,876)
Net cash flow from financing activities	13,000	–	98,500
Cash and cash equivalents at beginning of year	<u>1,983</u>	<u>15,475</u>	<u>3,439</u>
Cash and cash equivalents at end of year ⁽¹⁾	<u><u>15,475</u></u>	<u><u>3,439</u></u>	<u><u>27,180</u></u>

(1) The balances represented Zhengzhou Siwei's bank and cash balances as of each of the year end dates during the Track Record Period.

Net cash generated from operating activities

Zhengzhou Siwei derives its net cash inflow from operating activities primarily through the receipt of payments for the sale of its hydraulic roof supports products. Zhengzhou Siwei's cash outflow from operating activities is used primarily for raw material purchases, payment of utilities, selling costs and staff salaries.

Zhengzhou Siwei's net cash inflow generated from operating activities reflects its profit before tax, as adjusted for non-cash items, such as depreciation, and the effects of changes in working capital, such as increases or decreases in trade and other receivables, accruals and other payables, and income tax payment.

FINANCIAL INFORMATION OF THE TARGET GROUP

For the year ended 31 December 2009, Zhengzhou Siwei had net cash generated from operating activities in the amount of approximately RMB39,117,000, primarily as a result of approximately RMB147,990,000 of profit before tax, an increase in trade and other payables of approximately RMB364,082,000 but partially offset by an increase in trade and other receivables of approximately RMB425,541,000 and increase in inventories of approximately RMB71,607,000. The increase in trade and other payables was primarily attributable to Zhengzhou Siwei's increased purchases of raw materials, reflecting the increases in sales and production volume. The increase in inventories was primarily attributable to increase by approximately RMB32,761,000, RMB11,064,000 and RMB25,731,000 in work-in-progress, raw materials and finished goods respectively due to the fact that the amount of products sold was expected to increase. The increase in trade and other receivables was mainly a result of an increasing amount of revenue were generated during the year end period. The increase in trade and other payables was mainly attributable to increased sale volumes.

In 2008, Zhengzhou Siwei had net cash generated from operating activities in the amount of approximately RMB29,182,000, primarily as a result of approximately RMB80,171,000 of profit before tax, an increase in trade and other payables of approximately RMB309,749,000, but partially offset by an increase in trade and other receivables of approximately RMB335,784,000, an increase in amounts due from related companies of approximately RMB79,619,000 and an increase in amounts due to equity holders of approximately RMB49,365,000. The increase in trade and other payables was primarily attributable to Zhengzhou Siwei's increased purchases of raw materials, reflecting the increases in sales and production volume. Amounts due to equity holders represents Zhengzhou Siwei's shareholder loans.

In 2007, Zhengzhou Siwei had net cash generated from operating activities in the amount of approximately RMB42,015,000, primarily as a result of approximately RMB20,972,000 of profit before tax, an increase in trade and other payables of approximately RMB122,702,000 but partially offset by increase in inventories of approximately RMB34,080,000, an increase in trade and other receivables of approximately RMB98,235,000. The increase in trade and other payables was primarily attributable to increased purchases of raw materials resulted from increased production capacity. The increase in inventories was due to an increased production capacity, resulting in an increase in safety stock level, while the increase in trade and other receivables was attributable to increased sales volume.

FINANCIAL INFORMATION OF THE TARGET GROUP

Net cash used in investing activities

Zhengzhou Siwei's cash inflow from investing activities primarily generated from proceeds from disposal of property, plant and equipment and interest income. Zhengzhou Siwei's cash outflow from investing activities primarily consists of purchases of property, plant and equipment, and deposits paid for acquisition of property, plant and equipment.

For the year ended 31 December 2009, Zhengzhou Siwei had net cash used in investing activities of RMB113,876,000, primarily as a result of approximately RMB9,829,000 used in prepaid land lease payments, approximately RMB60,234,000 increase in pledged bank deposits, approximately RMB63,644,000 for the purchase of property, plant and equipment and approximately RMB1,371,000 for the purchase of intangible assets being partially offset by approximately RMB19,618,000 of proceeds from disposal of property, plant and equipment and approximately RMB1,584,000 in interest received.

In 2008, Zhengzhou Siwei had net cash used in investing activities of approximately RMB41,218,000, primarily as a result of approximately RMB21,691,000 increase in pledged bank deposits, approximately RMB11,383,000 for the purchase of property, plant and equipment, approximately RMB7,888,000 in prepaid land lease payment and approximately RMB2,567,000 for the purchases of intangible assets being partially offset by approximately RMB2,154,000 of proceeds from disposal of property, plant and equipment and approximately RMB157,000 in interest received.

In 2007, Zhengzhou Siwei had net cash used in investing activities of approximately RMB41,523,000, primarily as a result of approximately RMB42,741,000 for purchase of property, plant and equipment, approximately RMB1,428,000 for purchase of intangible assets and approximately RMB1,872,000 for payments for prepaid land leases being partially offset by approximately RMB2,580,000 of proceeds from disposal of property, plant and equipment and approximately RMB1,880,000 in proceeds from disposal of an associate.

Net cash generated from financing activities

For the year ended 31 December 2009, net cash generated from financing activities was approximately RMB98,500,000, primarily as a result of approximately RMB181,500,000 in new bank borrowings but partially offset by approximately RMB83,000,000 in repayment of borrowings.

In 2008, net cash generated from financing activities was nil.

In 2007, net cash generated from financing activities was approximately RMB13,000,000, primarily as a result of approximately RMB35,000,000 in new bank borrowings but partially offset by approximately RMB12,000,000 in repayment of borrowings and approximately RMB10,000,000 in repayment of finance lease payables.

FINANCIAL INFORMATION OF THE TARGET GROUP

INVENTORY ANALYSIS

As of 31 December 2009, inventory of Zhengzhou Siwei increased when compared to 31 December 2007 and 2008 primarily due to increased yearly production volume in 2009. By comparing with year ended 31 December 2007, Zhengzhou Siwei's average inventory turnover days decreased for the year ended 31 December 2008 and 2009, primarily due to the strengthening of inventory management and the strict control on both merchandising time and process. The following table sets forth a summary of Zhengzhou Siwei's inventory balances as of the reporting dates indicated:

	As of 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	61,893	60,702	71,766
Work-in-progress	26,343	30,413	63,174
Finished goods	8,380	966	26,697
	<u>96,616</u>	<u>92,081</u>	<u>161,637</u>
Total	<u><u>96,616</u></u>	<u><u>92,081</u></u>	<u><u>161,637</u></u>

The inventory balance of Zhengzhou Siwei was approximately RMB69,556,000 higher as of 31 December 2009 compared to the balance as of 31 December 2008, approximately RMB4,535,000 lower as of 31 December 2008 compared to the balance as of 31 December 2007. The significant increase in inventory balance as of 31 December 2009 by comparing to balance as of 31 December 2007 and 2008 was primarily due to its increased production volume in 2009.

The following table sets forth Zhengzhou Siwei's average inventory turnover days for the years indicated:

	As of 31 December		
	2007	2008	2009
Average Inventory Turnover (<i>Days</i>)	52	34	37

The decrease in average inventory turnover days for the years ended 31 December 2008 and 2009 by comparing with the year ended 31 December 2007 was primarily a result of the general increase in Zhengzhou Siwei's business and its effort to maintain a low inventory level.

FINANCIAL INFORMATION OF THE TARGET GROUP

TRADE AND OTHER RECEIVABLES AND TRADE AND OTHER PAYABLES

The trade and other receivables of Zhengzhou Siwei represent trade receivables and bill receivables from the sales of its products, prepayments, deposits and other receivables. Zhengzhou Siwei's trade payables represent payables in connection with the purchase of materials necessary for its production and other raw materials from various suppliers.

The table below sets forth a breakdown of Zhengzhou Siwei's trade and other receivables as of the reporting dates indicated:

	As of 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	163,393	495,249	843,990
Allowance for bad and doubtful debts	(1,795)	(3,782)	(4,370)
Bill receivables	3,500	2,000	1,100
Prepayments	22,577	25,891	37,268
Deposits	1,954	4,284	12,028
Other receivables	1,954	1,656	73,328
	<u>191,583</u>	<u>525,298</u>	<u>963,344</u>

Increases in the trade and other receivables of Zhengzhou Siwei primarily reflect increased sales volumes of hydraulic roof supports products.

The table below sets forth an aging analysis of Zhengzhou Siwei's trade receivables (net of allowance for bad and doubtful debts) and retention receivables, based on the delivery date, as of the reporting dates indicated:

Trade Receivables

	As of 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 – 90 days	53,319	298,582	549,769
91 – 180 days	43,362	54,053	73,499
181 – 365 days	9,642	28,702	49,210
Over 1 year	10,361	27,683	37,210
	<u>116,684</u>	<u>409,020</u>	<u>709,688</u>

FINANCIAL INFORMATION OF THE TARGET GROUP

Retention Receivables

	As of 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
0 – 90 days	18,590	49,818	51,580
91 – 180 days	19,225	25,166	28,966
181 – 365 days	7,099	7,463	26,168
Over 1 year	–	–	23,218
Total	<u>44,914</u>	<u>82,447</u>	<u>129,932</u>

Zhengzhou Siwei's trading terms with customers other than that for retention receivables are mainly in accordance to the agreed payment method written on contracts. Deposits payment is normally required. The credit term for retention receivables is generally one year. Zhengzhou Siwei seeks to maintain strict control over its receivables. Receivables are reviewed regularly by the directors and management of Zhengzhou Siwei. Receivables at the balance sheet dates primarily comprise amounts receivable from sales of Zhengzhou Siwei's products. No interest is charged on the trade receivables.

In determining impairment losses, Zhengzhou Siwei conducts regular monthly reviews of aging analysis and evaluation of collectibles on an individual basis. An allowance for impairment of trade receivables is established when there is objective evidence that Zhengzhou Siwei will not be able to collect all amounts due according to the original terms of receivables. As of 31 December 2007, 2008 and 2009, trade receivables of approximately RMB116,685,000, RMB409,020,000 and RMB709,688,000 respectively, were past due, based on the delivery date, but not impaired. After payment of deposit of the contract sum by Zhengzhou Siwei's customers upon signing of relevant sales contracts, the remaining balances, which vary from case to case, are due for payment either upon delivery, upon installation, or some combination of both, depending on customer needs and situation. All the sales of the Target Group were made under such payment scheme. Approximately 75%, 48%, and 50% of contracts signed in 2007, 2008, and 2009 respectively involved payment upon installation. Irrespective of whether the payment is due upon delivery or upon installation, the Target Group normally takes action to collect outstanding receivables 60 days upon delivery. As the customers install the mining machinery by stages and no information as to the completion of the installation dates was supplied by the customers, Zhengzhou Siwei classifies trade receivables based on the delivery dates of the mining machinery for the purposes of financial reporting. Therefore, the dates of the payment from the customers will be beyond the expected due date as per the relevant customers. However, as advised by the PRC legal advisers to the Company, according to relevant PRC laws and regulations, title to such mining machinery shall pass at the time of its delivery, except otherwise agreed by the parties. As confirmed by Zhengzhou Siwei, (i) it and its customers have not prescribed special provisions in relevant sales contracts indicating that the title to the mining machinery remains in the seller until the buyer has paid all the consideration or fulfilled any special obligation; and (ii) in practice, the title to such mining machinery passes to the buyer when it is delivered to the buyer and passes the buyer's inspection and acceptance.

FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 December 2009, trade receivables of approximately RMB709,688,000 were past due, up to the Latest Practicable Date, approximately RMB319,007,000 or 45% of the past due amount as at 31 December 2009 has been settled. A significant amount of trade receivables was past due because of business expansion and the credit period extensions granted to some customers. Among the total past due amount, approximately RMB672,478,000 or 95% were aged less than 12 months which are considered acceptable as sometimes the Target Group extended more favorable credit terms to some customers for an extended period, upon thorough review of each of the customer's situation, credit profile, and history. For the remaining amount of the trade receivables of approximately RMB37,210,000 or 5%, majority of these balances past due aged from 13 to 24 months as at 31 December 2009.

Up to 22 June 2010, approximately RMB19,390,000 or 52% of the trade receivables aged 13 to 24 months as at 31 December 2009 were received.

The unsettled trade receivables aged from 13 to 24 months was mainly contributed by the following 4 customers, who all are engaged in coal mine exploitation business.

安徽五溝煤礦有限責任公司（“安徽五溝”）is located in Anhui Province with approximately RMB2,401,000 unsettled balance as at 22 June 2010 aged over one year. The Target Group has over two years business relationship with 安徽五溝 and has received settlement of approximately RMB12 million during the past one year.

阜新礦業（集團）有限責任公司（“阜新礦業”）is located in Liaoning Province with approximately RMB4,534,000 unsettled balance as at 22 June 2010 aged over one year. The Target Group has more than four years business relationship with 阜新礦業 and has received settlement of approximately RMB2,500,000 during the past one year.

吉林省杉松崗礦業集團有限責任公司（“杉松崗礦業”）is located in Jilin Province with approximately RMB1,784,000 unsettled balance as at 22 June 2010 aged over one year. The Target Group has more than three years business relationship and received continuous orders from with 杉松崗礦業. Over the past one year, the Target Group has received settlement of approximately RMB300,000 from 杉松崗礦業.

山西朔州東日升煤業有限公司（“東日升煤業”）is located in Shanxi Province with approximately RMB8,094,000 unsettled balance as at 22 June 2010 aged over one year. The Target has over two years business relationship with 東日升煤業. 東日升煤業 agreed with the Target Group that the outstanding balance will be repaid within three months.

None of the trade receivables from top 5 customers was aged over one year as at the Latest Practicable Date.

As continuous repayments have been received from the customers with past due balances or repayment plan to receive the outstanding balance is agreed. The target Group concludes that no sign of impairment on these outstanding balances is noted, and therefore no provision was made in respect of such balances.

FINANCIAL INFORMATION OF THE TARGET GROUP

As of 31 December 2007, 2008 and 2009, Zhengzhou Siwei had trade receivables and retention receivables outstanding over 90 days amounting to approximately RMB89,690,000, RMB143,067,000 and RMB238,271,000 respectively. As of 31 December 2008, the increase in trade receivables outstanding for 181 – 365 days when compared to the amount outstanding as of 31 December 2007 was mainly due to the increase in retention as a result of increased sales volume. As of 31 December 2009, the increase in trade receivables outstanding for 91 – 365 days when compared to the amount outstanding as of 31 December 2008 was primarily due to increase in sales volume.

Zhengzhou Siwei estimates that certain trade receivables unsettled over 90 days are still recoverable based on individual analysis of the relevant customers' credit history and financial position. As such, Zhengzhou Siwei did not consider those unsettled amounts as impaired during the Track Record Period. As of the Latest Practicable Date, substantially all of such amounts had been collected.

Zhengzhou Siwei has experienced default of settlements of trade receivables by its customers and has written off certain amount as uncollectible. Zhengzhou Siwei generally recognises overdue trade receivables as uncollectible upon bankruptcy or insolvency of a debtor where the overdue amounts cannot be settled against the property of such debtor or when the debtor has been in default for an extended period of time and sufficient evidence indicates that Zhengzhou Siwei's ability to collect such trade receivables is remote.

FINANCIAL INFORMATION OF THE TARGET GROUP

The general credit term for trade receivable are that 60% of contract sum are due before delivery, 30% of contract sum are due after delivery and the remaining 10% are due one year after delivery.

Since 2007, Zhengzhou Siwei has strengthened its credit control policies by setting up a designated team to manage trade receivables, which routinely monitors its existing customers' payment history and financial position by requesting and reviewing their bank account statements and other financial documents from time to time, conducts on-site visits to collect unsettled trade receivables from customers and implements strict control of credit terms given to new customers. As a result, Zhengzhou Siwei has been able to extend more favorable credit terms to select customers, such as in 2008, where in light of a challenging economic environment and higher selling prices caused by significant increases in steel prices, Zhengzhou Siwei extended credit terms for one to six months on the delivery date, upon thorough review of each of the customer's situation, credit profile, and history. Based on its collection history, Zhengzhou Siwei believes that its control over collection of debts is effective.

As a significant portion of sales were generated in the second half of the year in 2008, average trade receivables turnover increased to approximately 120 days. As a result, Zhengzhou Siwei also had a lot of payables outstanding at the end of 2008, which has contributed to a higher payables turnover.

The following table sets forth the average turnover days for Zhengzhou Siwei's trade receivables and trade payables for the years indicated:

	As of 31 December		
	2007	2008	2009
Average trade payables turnover (<i>Days</i>)	106	131	212
Average trade receivables turnover (<i>Days</i>)	78	120	198

The increase in average trade receivables turnover days during the Track Record Period was mainly due to the overall business expansion, therefore both the customers base and volume have enlarged accordingly. In addition, as a significant amount of sales, approximately to RMB692 million, was generated in the fourth quarter of 2009, leading to a large amount of trade receivable as at 31 December 2009. Consequently, the turnover period has increased accordingly.

FINANCIAL INFORMATION OF THE TARGET GROUP

The increase in average trade payables turnover days during the Track Record Period was mainly due to the overall business expansion, and also more purchases of raw materials were made during the fourth quarter of 2009. Moreover, due to the growth of Zhengzhou Siwei and long relationship with major suppliers was built up, longer credit terms were granted.

The balance of retention receivables, subsequent settlements and the recovery rates of retention receivables during the Track Record Period are set out below:

	As of 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Retention receivables	44,913	82,447	129,932
Subsequent settlements	44,913	64,518	27,623
Recovery rates (<i>approximate %</i>)	100%	78%	21%

Up to the Latest Practicable Date the subsequent settlements for trade receivables and retention receivables as at 31 December 2009 is approximately RMB319,007,000 and RMB27,623,000, respectively.

PREPAYMENTS

Included in prepayments at 31 December 2009 are deposits for acquisition of four parcels of land in Guangwu Town, Xinyang City (滎陽市廣武鎮) of approximately RMB18,379,000, for which the directors of Zhengzhou Siwei and the existing owners of these parcels of land have not yet concluded the prices for the transfer of the legal titles. Accordingly, Zhengzhou Siwei did not have the relevant land use right certificates. During the years ended 31 December 2008 and 2009, Zhengzhou Siwei constructed four buildings on these parcels of lands. Zhengzhou Siwei obtained the following certificates in relation to the land use right:

- (a) Pursuant to the certificate of confirmation, 《證明》, issued by Planning Administration Bureau of Xinyang (滎陽市規劃管理局) dated 21 October 2009, the construction plan of Zhengzhou Siwei in Guangwu Town, Xinyang City (滎陽市廣武鎮) satisfied the overall development programme of Guangwu Town, Xinyang City (滎陽市廣武鎮), Zhengzhou Siwei is in the process of obtaining the relevant construction plan permit.

FINANCIAL INFORMATION OF THE TARGET GROUP

- (b) Pursuant to the certificate of confirmation, 《證明》, issued by Land Resources Bureau of Xinyang (滎陽市國土資源局) dated 5 January 2010 Zhengzhou Siwei has not yet obtained the land use right certificates. The procedures in relation to change the usage of land are in progress and Zhengzhou Siwei is allowed to construct and use the properties for production and operation on these parcels of land before obtaining the relevant land use right certificates without any penalty.

According to a legal opinion issued by the PRC Lawyer, based on the above certificates of confirmation, despite the fact that Zhengzhou Siwei's buildings were erected on the land before obtaining the relevant land use right certificates, the probability of penalty imposed by Planning Administration Bureau of Xinyang (滎陽市規劃管理局) and Land Resources Bureau of Xinyang (滎陽市國土資源局) is low.

DEBTS

Zhengzhou Siwei's bank loans as of 31 December 2007 and 2008 and 2009 were as follows:

	As of 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Bank loans	29,000	29,000	127,500

All bank loans are short term in nature and are denominated in RMB during the Track Record Period. The bank loans, are secured by charges over Zhengzhou Siwei's property, plant and equipment, prepaid land lease payments and guarantees given by its director, a related company and third parties.

- (1) As at 31 December 2007, 2008 and 2009, Zhengzhou Siwei had nil, nil and approximately RMB85,000,000, respectively, in outstanding unsecured bank loans guaranteed by third parties. On 9 March 2009, Zhengzhou Siwei and a third party have mutually agreed to issue cross guarantees to the extent of RMB60,000,000 to banks in respect of banking facilities granted to Zhengzhou Siwei and the third parties. On 16 June 2009, Zhengzhou Siwei and another third party have mutually agreed to issue cross guarantee to the extent of RMB50,000,000. On 6 February 2010 and 20 April 2010 the two cross guarantees were increased to the extent of RMB80,000,000 and RMB100,000,000 respectively. Under such cross guarantees, Zhengzhou Siwei and the third parties are jointly and severally liable for all or any of each of their borrowings from the banks. Further details are set out in the paragraph headed "Financial guarantees issued" below. The directors confirm that the amount of outstanding unsecured bank loans guaranteed by independent third party guarantors as of 31 December 2009 had not been released as of the Latest Practicable Date.

FINANCIAL INFORMATION OF THE TARGET GROUP

These third party guarantors were not related to Zhengzhou Siwei and were not connected persons as defined under the GEM Listing Rules. These third-party guarantors are 河南太龍藥業股份有限公司 (Henan Taloph Pharmaceutical Stock Company Limited) (“Taloph Pharmaceutical”) and 河南天海電器有限公司 (Henan Tianhai Electric Co., Ltd) (“Tianhai Electric”). Details of these entities are as follows:

Taloph Pharmaceutical is a pharmaceutical products manufacturer listed in Shanghai. Other than this, none of Taloph Pharmaceutical or its shareholders, controlling person, directors or senior management has any direct or indirect shareholding or trustee relationship with the controlling shareholder directors or senior management of Zhengzhou Siwei.

Tianhai Electric is a subsidiary of China Auto Electronics Group Limited (“China Auto”, together with its subsidiaries, the “China Auto Group”), a company listed on the mainboard of the Singapore Stock Exchange. It is disclosed in the 2009 annual report that China Auto Group is principally engaged in manufacture of automobile wire harnesses and connectors in the PRC. Other than this, none of Tianhai Electric or its shareholders, controlling person, directors or senior management has any direct or indirect shareholding or trustee relationship with the controlling shareholder, directors or senior management of Zhengzhou Siwei.

- (2) To meet Zhengzhou Siwei’s existing and future working capital requirements, in March and May 2009, Zhengzhou Siwei entered into 2 six-month bank factorings transactions with an amount of RMB17,200,000 and RMB20,000,000, respectively through Zhengzhou Nanyang Road Sub-branch of China Merchants Bank.

ANALYSIS OF KEY BALANCE SHEET ITEMS

Amounts due from/(to) an equity holder/a director/related companies

The amounts due are unsecured, interest-free and have no fixed repayment terms except for the loans from a related company of approximately RMB7,132,000 and RMB29,912,000 as at 31 December 2007 and 2008 respectively which are unsecured, bearing interest at 7% per annum and have no fixed repayment terms; and a loan from an equity holder which amounted to US\$7,200,000 (equivalent to approximately RMB49,365,000) as at 31 December 2008 and US\$3,700,000 (equivalent to approximately RMB25,368,000) as at 31 December 2009 which was unsecured, interest free and repayable on 12 March 2009 but was subsequently extended to 31 March 2010 pursuant to an agreement dated 25 April 2009 and was further extended to 31 March 2011 pursuant to an agreement dated 5 March 2010 entered into between the equity holder and Zhengzhou Siwei.

FINANCIAL INFORMATION OF THE TARGET GROUP

Pledged bank deposits and bank and cash balances

Zhengzhou Siwei's pledged bank deposits represent deposits pledged to banks. The deposits are denominated in RMB and at fixed interest rate of 1.98% per annum as at 31 December 2008 and 2009 and therefore are subject to fair value interest rate risk.

At the end of each reporting period, all of Zhengzhou Siwei's bank and cash balances are denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Bank borrowings

Zhengzhou Siwei expanded its production capacity significantly in recent years. As a result, Zhengzhou Siwei raised more bank borrowings to meet its working capital and expansion needs during the Track Record Period. For details of the indebtedness of Zhengzhou Siwei, please refer to the paragraph headed "Debts" above in this section.

FINANCIAL INFORMATION OF THE TARGET GROUP

CAPITAL EXPENDITURES

The following table sets forth Zhengzhou Siwei's capital expenditures for the years indicated:

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	6,503	1,552	7,902
Plant and machinery	8,798	11,632	20,117
Office equipment	2,075	762	1,497
Motor vehicles	3,049	2,644	2,732
Construction-in-progress	<u>29,564</u>	<u>38,529</u>	<u>14,566</u>
Total	<u><u>49,989</u></u>	<u><u>55,119</u></u>	<u><u>46,814</u></u>

- (1) Capital expenditures for construction-in-progress for the year ended 31 December 2007, 2008 and 2009 were used to increase Zhengzhou Siwei's production capacity.

Zhengzhou Siwei's capital expenditures for the year ended 31 December 2007, 2008 and 2009 have been directed primarily toward increasing its production capacity.

FINANCIAL INFORMATION OF THE TARGET GROUP

CAPITAL COMMITMENTS

The following table represents Zhengzhou Siwei's capital commitments as of the dates indicated:

	As of 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Property, plant and equipment contracted but not provided for	27,669	791	16,887
Land lease prepayments contracted but not provided for	–	–	–
Authorised but not contracted for	–	200,000	211,410
	<u>27,669</u>	<u>200,791</u>	<u>228,297</u>

For the three years ended 31 December 2009, Zhengzhou Siwei experienced a significant increase in its capital commitments primarily because Zhengzhou Siwei paid a substantial amount of capital expenditures for the purchase of property, plant and equipment in connection with its expansion in production capacity.

FINANCIAL INFORMATION OF THE TARGET GROUP

OPERATING LEASE COMMITMENTS

At 31 December 2007, 2008 and 2009, the total future minimum lease payments of Zhengzhou Siwei under non-cancellable operating leases are payable as follows:

	As of 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within one year	631	657	724
In the second to fifth years inclusive	2,788	2,899	–
After five years	1,940	1,172	–
	<u>5,359</u>	<u>4,728</u>	<u>724</u>

Operating lease payments represent rentals payable by Zhengzhou Siwei for certain parcels of land of its factories premises. The leases are negotiated for terms of ranging from four to fifteen years do not include contingent rentals.

OTHERS

a. Significant investment held, their performance during the year and their future prospects

Pursuant to a joint venture agreement dated 20 March 2007, the Target acquired 25% equity interest in Zhengzhou Siwei which became an associate of the Target. Pursuant to a share transfer agreement dated 17 September 2007, the Target further acquired 75% equity interest in Zhengzhou Siwei. The investment in an associate has been reclassified to investment in a subsidiary as at 31 December 2007. The Target Group's share of an associate's profit for the period from 22 February 2007 (date of incorporation) to 31 December 2007 of approximately HK\$3,784,000, including share of the associate's taxation of approximately HK\$583,000. Details regarding the future prospects of the Target Group is set out in the sub-section headed "Reasons for and benefits of the Acquisition" in the "Letter from the board" of this circular.

No material investment held in 2008 and 2009 except investment in Subsidiary of Zhengzhou Siwei.

FINANCIAL INFORMATION OF THE TARGET GROUP

b. Details of material acquisitions and disposals of subsidiaries and affiliated companies

Zhengzhou Siwei was established as a domestic enterprise on 9 June 2003 in the PRC with limited liability. On 20 March 2007, the then equity holders of Zhengzhou Siwei entered into a joint venture agreement with the Target whereby the then equity holders of Zhengzhou Siwei agreed to sell 25% equity interest in Zhengzhou Siwei in aggregate to the Target. Accordingly Zhengzhou Siwei became a sino-foreign equity joint venture on 20 April 2007 and an associate of the Target. Pursuant to a share transfer agreement dated 17 September 2007, all the individual equity holders of Zhengzhou Siwei agreed to sell their entire 75% equity interest in Zhengzhou Siwei in aggregate to the Target. As a result, Zhengzhou Siwei became a wholly-owned subsidiary of the Target and a wholly-owned foreign enterprise established in the PRC.

On 31 July 2004, Zhengzhou Siwei revalued certain of its property, plant and equipment and prepaid land lease payments with the revaluation gains of RMB21,012,000 credited to the capital reserve account of Zhengzhou Siwei in accordance with the Generally Accepted Accounting Principles of the PRC.

Pursuant to a resolution passed on 16 September 2004 by the then equity holders of Zhengzhou Siwei, the directors of Zhengzhou Siwei were authorised to capitalize RMB34,381,000 standing to the credit of the capital reserve account of Zhengzhou Siwei, which comprised capital reserve of RMB13,369,000 and the revaluation gains of RMB21,012,000 as stated above, by applying such sum as paying up in full RMB34,381,000 capital in proportion to equity holders of Zhengzhou Siwei, whose names appeared on the register of member of Zhengzhou Siwei at the close of business on 16 September 2004.

Zhengzhou Siwei, subsidiary of the Target Group, acquired 100% equity interest in Jiaozuo Siwei, a domestic limited liability enterprise established in the PRC in 2006 and disposed of it in 2007. Zhengzhou Siwei acquired 20% equity interest in Baoji Siwei in 2005 and disposed of it in 2007.

No material acquisitions and disposals of subsidiaries and affiliated companies in 2008 and 2009.

c. Segmental information

The Target Group has one single reportable segment which was managed as a single strategic business unit that engaged in the manufacturing and sale of mining machinery with similar technology and marketing strategy. The Target Group's operating profit or loss is earned or incurred within the PRC from state-owned enterprises and all its operating assets are located in the PRC. Therefore, no business segment or geographical segment is presented in 2007, 2008 and 2009.

FINANCIAL INFORMATION OF THE TARGET GROUP

d. Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

As at 31 December 2007, 2008 and 2009, the Target Group had a total of 1,054, 1,674 and 2,407 employees respectively. The total staff costs (including bonuses, allowances and retirement benefit scheme contributions) amounted to approximately RMB30.0 million, RMB55.7 million and RMB81.9 million respectively for the year. Staff remuneration is reviewed by the management of the Target Group from time to time depending on length of service and performance where warranted. In addition to salaries, the Target Group provides staff benefits including medical benefits, contributions to staff's provident fund and training courses. Bonuses were calculated according to employees' performance, and paid once a year. Nil, RMB3,158,000 and RMB2,354,000 bonus were paid to staff in 2007, 2008 and 2009 respectively, which had been included in staff costs. No share options are available to employees of the Target Group during 2007, 2008 and 2009.

e. Future plans for material investments or capital assets and their expected sources of funding

Details with respect to future plans for material investments or capital assets and their expected sources of funding is set out in the paragraph headed "Expand its production capacity and consolidate its production facilities" under the sub-section headed "Business Strategies" under the section headed "Business of the Target Group" of this circular.

f. Gearing ratio

The Target Group's total borrowings as at 31 December 2007, 2008 and 2009 amounted to approximately HK\$135.1 million, HK\$200.8 million and HK\$323.6 million respectively. On this basis, the gearing ratio is calculated at 31.5%, 20.2% and 19.8% respectively, based on an amount of total assets of approximately HK\$429.4 million, HK\$993.9 million and HK\$1,635.0 million respectively.

g. Exposure to fluctuations in exchange rates

In 2007, 2008 and 2009, the Target Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, US dollars and RMB. Accordingly the Target Group's profit or loss is substantially independent of changes in foreign currency exchange rate. The Target Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

FINANCIAL INFORMATION OF THE TARGET GROUP

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

The activities of Zhengzhou Siwei have exposure primarily to the financial risks such as foreign currencies risk, credit risk, liquidity risk and interest rate risk. The overall risk management planning of Zhengzhou Siwei focuses on the unpredictability of financial market and the mitigation of potential adverse effects on the financial performance of Zhengzhou Siwei. Details of each type of financial and market risks are described below:

Foreign currencies risk

Zhengzhou Siwei has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB. Accordingly, Zhengzhou Siwei's profit or loss is substantially independent of changes in foreign currency exchange rates. Zhengzhou Siwei currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. Zhengzhou Siwei will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The carrying amount of the bank and cash balances, trade and other receivables, and amounts due from related companies included in the statement of financial position represents Zhengzhou Siwei's maximum exposure to credit risk in relation to Zhengzhou Siwei's financial assets.

Zhengzhou Siwei's credit risks is primarily attributable to its trade receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history. In order to minimise credit risks, the directors of Zhengzhou Siwei review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors of Zhengzhou Siwei consider that Zhengzhou Siwei's credit risk is significantly reduced.

The credit risk on bank and cash balances is limited because the counterparties are either banks with high credit-ratings assigned by international credit-rating agencies or large PRC state-controlled banks.

The Other receivables and amounts due from related companies are closely monitored by the directors of Zhengzhou Siwei.

Zhengzhou Siwei has no significant concentrations of credit risk with exposure spread over a number of counterparties and customers.

FINANCIAL INFORMATION OF THE TARGET GROUP

Liquidity risk

Zhengzhou Siwei's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity of Zhengzhou Siwei's financial liabilities as at 31 December 2007, 2008 and 2009 is within one year.

Interest rate risk

Zhengzhou Siwei's exposure to interest rate risk arises from its bank deposits, bank borrowings and amount due from related company. The bank borrowings and amount due from a related company mainly bear interests at fixed interest rates and therefore are subject to fair value interest rate risks and Zhengzhou Siwei's operating cash flows are substantially independent of changes in market interest rates. The bank deposits bear interests at variable rates varied with the then prevailing market condition. The exposure of the interest rate risks of the bank balances is insignificant given the existing low bank interest deposit rate.

Commodity price risk on steel

Steel is the principal raw material of Zhengzhou Siwei's products, and the usage of steel by Zhengzhou Siwei accounted for over 80% of its total cost of sales in the Track Record Period. Fluctuations in the market price of steel have a significant impact on the earnings of Zhengzhou Siwei, cash flows as well as the value of its inventories. Zhengzhou Siwei does not, however, have any hedging arrangements to reduce the risk of Zhengzhou Siwei arising from fluctuations in steel prices.

FINANCIAL INFORMATION OF THE TARGET GROUP

RELATED PARTY TRANSACTIONS

During the period from 22 February 2007 to 31 December 2007, the year ended 31 December 2008 and 2009, the Target Group engaged in a number of transactions with related parties, of which details are set out in Note 37 in the Accountants' Report on the Target in Appendix I to this circular. The table below sets out the name of the related parties and their respective relationship with the Target Group:

Name of related parties	Relationship
鄭州四維機電設備銷售有限公司(Zhengzhou Siwei Mechanical and Electrical Sales Co., Ltd.)	A director of a subsidiary who is also a key management personnel of the Target Group, Mr. Wang Fu, was the controlling equity holder of the related company.
雞西煤礦機械有限公司 (Jixi Coal Mine Mechanical Co., Ltd.)	The directors, Mr. Li Rubo and Mr. Williams Emory, were the controlling equity holders of the related company.
北京四維煤機科技有限公司 (Beijing Siwei Coal Mine Technical Co., Ltd.)	A director, Mr. Li Rubo, was the controlling equity holder of the related company.
瀋陽四維機電設備有限公司 (Shenyang Siwei Mechanical and Electrical Co., Ltd.)	A director of a subsidiary who is also a key management personnel of the Target Group, Mr. Wang Fu, was the controlling equity holder of the related company.
焦作四維液壓機械有限公司 (Jiaozuo Siwei Hydraulic Machinery Company Limited)	A director of a subsidiary who is also a key management personnel of the Target Group, Mr. Wang Fu, was the controlling equity holder of the related company.

FINANCIAL INFORMATION OF THE TARGET GROUP

Such transactions resulted in amounts due to/from related companies as at 31 December 2007, 2008 and 2009. During the period from 22 February 2007 to 31 December 2007, the year ended 31 December 2008 and 2009, the Target Group had related party loan balances, of which details are set out in Note 24 in the Accountants' Report on the Target in Appendix I to this circular. As set out in the "Letter from the Board" of this circular, the amount due to ultimate holding company will be either be capitalized as equity or waived by the Vendor upon Completion. The Target Group expects that all amounts due to related companies as at 31 December 2009 will be settled prior to Completion.

The amount due from a director of a subsidiary will be settled before Completion. The amounts due from related companies are in trade nature.

As at the Latest Practicable Date, the Target Group had (i) two bank loans of RMB10 million each were each were secured by inventories and guaranteed by both Taloph Pharmaceutical (an independent third party) and Mr. Wang Fu, a director of a subsidiary; and (ii) two bank loans of RMB5 million each were secured by inventories and guaranteed by Zhengzhou Eastern Enterprise Investment Guarantee Company Limited, Wang Fu and an independent third party. The Target Group expects that, the guarantee given by Mr. Wang Fu in relation to the two RMB10 million loans and the two RMB5 million loans will be released prior to Completion.

INDEBTEDNESS STATEMENT

Indebtedness

As at 30 April 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Target Group had outstanding indebtedness as follows:

FINANCIAL INFORMATION OF THE TARGET GROUP

Borrowings

The tables below set out the Target Group's borrowings and the maturity profile of such borrowings:

	As of 31 December			As at
	2007	2008	2009	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured interest bearing bank borrowings	30,851	32,954	144,886	286,932
Secured interest bearing borrowings	79,505	144,810	155,663	159,156
Unsecured amount due to a ultimate holding company of the Target Group	24,570	23,040	23,018	23,018
Unsecured other payable	3,967	17,179	4,574	5,217
	<u>138,893</u>	<u>217,983</u>	<u>328,141</u>	<u>474,323</u>
Total	<u>138,893</u>	<u>217,983</u>	<u>328,141</u>	<u>474,323</u>
Loans repayable:				
Within one year	30,851	32,954	300,549	446,088
In the second year	–	–	–	–
In the third year	–	–	–	–
In the fourth year	–	144,810	–	–
In the fifth year	79,505	–	–	–
No fixed repayment terms	28,537	40,219	27,592	28,235
	<u>28,537</u>	<u>40,219</u>	<u>27,592</u>	<u>28,235</u>
Total	<u>138,893</u>	<u>217,983</u>	<u>328,141</u>	<u>474,323</u>

As at 30 April 2010, the Target Group has no unutilized banking facilities.

The interest rate of the Target Group's secured interest bearing bank borrowings was ranging from 4.86% to 7.43% per annum throughout the Track Record Period. The above bank borrowings are all denominated in RMB.

As at 30 April 2010, being the Latest Practicable Date for the purpose of this indebtedness statement prior of this circular, the Target Group had outstanding secured interest bearing bank borrowings of RMB252,500,000, equivalent to approximately HK\$286,932,000. The borrowings comprised of bank loans of RMB55,000,000 secured by property, plant and equipment and prepaid land lease payments, a bank loan of RMB17,500,000 secured by inventories, a bank loan of RMB50,000,000 secured by trade receivables from Heilongjiang Dragon Coal Group Co., Ltd., bank loans of RMB10,000,000 secured by inventories and guaranteed by Zhengzhou Eastern Enterprise Investment Guarantee Company Limited, Wang Fu and an independent third party,

FINANCIAL INFORMATION OF THE TARGET GROUP

a bank loan of RMB10,000,000 guaranteed by Tianhai Electric, bank loans of RMB40,000,000 guaranteed by Taloph Pharmaceutical, bank loans of RMB15,000,000 secured by inventories and guaranteed by Henan Province Guarantee for Small and Medium Size Enterprise Company, a bank loan of RMB20,000,000 guaranteed by Taloph Pharmaceutical and Wang Fu, a bank loan of RMB15,000,000 guaranteed by Tianhai Electric and Wang Fu, and bank loans of RMB20,000,000 secured by inventories and guaranteed by Taloph Pharmaceutical and Wang Fu. All the borrowings with Wang Fu's guarantee will be settled before Completion.

The interest rate of the Target Group's secured interest bearing borrowings was 8% per annum and compounded annually throughout the Track Record Period. The above borrowings are all denominated in USD. As at 30 April 2010, being the Latest Practicable Date for the purpose of this indebtedness statement prior to this circular, the Target Group had outstanding secured interest bearing borrowings of approximately USD20.4 million, comprised of approximately USD14.0 million due to TJCC Holdings Ltd. and approximately USD6.4 million bridge loans due to Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC.

The unsecured amount due to a ultimate holding company of the Target Group and the unsecured other payable are dominated in USD and RMB, respectively, are unsecured, interest-free and have no fixed repayment terms except for an unsecured other payable of approximately RMB7,132,000 (equivalent to approximately HK\$7,587,000) and approximately RMB29,912,000 (equivalent to approximately HK\$33,991,000) at 31 December 2007 and 2008 respectively which are unsecured, bearing interest at 7% per annum and have no fixed repayment terms.

Pledge of assets

The following table sets forth the carrying amount of assets pledged by the Target Group for banking facilities:

	As of 31 December			As at
	2007	2008	2009	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	18,756	49,933	85,072	90,730
Prepaid land lease payments	5,166	5,398	13,920	13,803
Inventories	–	37,886	57,350	143,611
Time deposits	–	24,649	93,097	369,339
Trade and other receivables	–	–	–	84,119
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>23,922</u>	<u>117,866</u>	<u>249,439</u>	<u>701,602</u>

FINANCIAL INFORMATION OF THE TARGET GROUP

The secured interest bearing borrowings as at 31 December 2007, 2008, and 2009 and 30 April 2010 are secured by the first floating charge over all the Target's undertaking, property, assets and right whatsoever and wheresoever both present and future and the share pledge agreement made between the ultimate parent of the Target and the lender.

Financial guarantees

The maximum liability of the Target Group as at 31 December 2009 and 30 April 2010 under the guarantee are the amounts of bank loans drawn under the cross guarantees by the third parties at that date of approximately HK\$113,636,000 and HK\$79,545,000 respectively.

No financial guarantee was provided by the Target Group as of 31 December 2007 and 2008.

Contingent liabilities

Legal titles of certain land and buildings

As at 30 April 2010, Zhengzhou Siwei erected four buildings on certain parcels of land which Zhengzhou Siwei did not have relevant land use rights. Notwithstanding the local government authorities, including Planning Administration Bureau of Xingyang (滎陽市規劃管理局), Construction Administration Bureau of Xingyang (滎陽市建設管理局), Real Estate Administration Bureau of Xingyang (滎陽市房地產管理局) and Land Resources Bureau of Xingyang (滎陽市國土資源局), have issued certificates of confirmation in respect of Zhengzhou Siwei's right to use these buildings and parcels of land, Zhengzhou Siwei may subject to penalty for the breach of PRC laws and regulations. The directors of Zhengzhou Siwei do not consider a provision for liability be necessary on the grounds that there are no reliable estimate that can be made; and, according to the legal opinion issued by the PRC Lawyer, based on the above certificates of confirmation, the probability of penalty imposed by the aforementioned bureaus is low.

Financial guarantees issued

As at 30 April 2010, Zhengzhou Siwei and two independent third parties have mutually agreed to issue two separate cross guarantees to the extent of HK\$204,545,000 in aggregate to banks in respect of banking facilities granted to Zhengzhou Siwei and the third parties. Under such cross guarantees, Zhengzhou Siwei and the third parties are jointly and severally liable for all or any of each of their borrowings from the banks.

As at 30 April 2010, the directors of Zhengzhou Siwei do not consider it probable that a claim will be made against Zhengzhou Siwei under the above guarantees. The maximum liability of Zhengzhou Siwei as at 30 April 2010 under the guarantees is the amount of bank loans drawn under the cross guarantees by the third parties at that date of approximately HK\$79,545,000.

The third parties are Tianhai Electric and Taloph Pharmaceutical.

FINANCIAL INFORMATION OF THE TARGET GROUP

Tianhai Electric is a subsidiary of China Auto Group, a company listed on the mainboard of the Singapore Stock Exchange. It is disclosed in the 2009 annual report that China Auto Group is principally engaged in manufacture of automobile wire harnesses and connectors in the PRC, with 8 manufacturing facilities in Hebi, Wuhu, Jiangxi, Harbin, Shenyang, Fujian, Shanghai and Chongqing. China Auto Group also has a manufacturing facility in Honduras, Central America. It is further disclosed that China Auto Group has been qualified as original equipment manufacturer supplier by major automakers, including Dongfeng Motor Corporation, Shanghai Volkswagen Automotive Co Ltd, FAW-Volkswagen Automobile Co Ltd, General Motors Corporation, Chery Automobile Co Ltd, and Changan Automobile Group Ltd. It was disclosed in the 2009 results announcement that China Auto Group recorded revenue of approximately RMB990.9 million and RMB1,135.0 million for the two years ended 31 December 2008 and 2009 respectively and had equity attributable to the equity holders of approximately RMB417.6 million as at 31 December 2009.

Taloph Pharmaceutical is a company listed on the Shanghai Stock Exchange. As disclosed in the 2009 annual report that Taloph Pharmaceutical Group is principally engaged in sales and manufacture of pharmaceutical products in the PRC. It is further disclosed in the annual report that 鞏義市竹林鎮政府 (Zhulin Town Government of Gongyi City) through its subsidiaries was interested in approximately 40.7% of the issued share capital of Taloph Pharmaceutical as at 31 December 2009. Taloph Pharmaceutical Group recorded revenue of approximately RMB612.7 million and RMB813.1 million for the two years ended 31 December 2008 and 2009 respectively and had equity attributable to the equity holders of approximately RMB572.0 million as at 31 December 2009.

When arranging for banking facilities, the PRC banks will require Zhengzhou Siwei to provide either securities and/or guarantee for the borrowings sought. In the past, Zhengzhou Siwei had engaged a specialised company in providing guarantees to the PRC banks, however, the amount this company could guarantee for might not be sufficient to meet Zhengzhou Siwei's requirement and a fee would be charged on the amount guaranteed by this company. Moreover, Zhengzhou Siwei had to provide pledged securities such as plant, equipment and inventory to this company for the guarantees provided. Such arrangement had contributed to an increase in the costs of borrowing for Zhengzhou Siwei. Alternatively, the provision of cross guarantees in respect of banking facilities granted to Zhengzhou Siwei, Tianhai Electric and Taloph Pharmaceutical can meet the requirements of the PRC banks without engaging a specialised company. When applying for banking facilities, Zhengzhou Siwei was introduced by the PRC banks to Tianhai Electric and Taloph Pharmaceutical which were in the course of applying for banking facilities from the PRC banks. When entering into the two separate cross guarantees arrangements, the directors of Zhengzhou Siwei had taken into account the respective background, business operations and financial positions of Tianhai Electric and Taloph Pharmaceutical and considered the risk for a claim to be made against Zhengzhou Siwei under the cross guarantees to be acceptable.

FINANCIAL INFORMATION OF THE TARGET GROUP

Save as disclosed above and apart from intra-group liabilities, the Target Group did not have any other outstanding bank or other borrowings, mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, guarantee, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments or other contingent liabilities.

Save as disclosed above, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Target Group since 30 April 2010.

DIVIDEND POLICY

The Directors may recommend a payment of dividend in future after taking into account various relevant factors including the financial condition, capital requirements and earnings of the Enlarged Group, and subject to the Articles of the Company. There is no guarantee that dividends will be paid in the future. After Completion, the Directors' priority will be to retain earnings in order to facilitate our capital growth and expansion of the Enlarged Group.

Any cash dividend will be paid in Hong Kong dollars and other distributions (if any) will be paid to the Shareholders by any means as the Directors deem legal, fair and practical.

The Company's audited accumulated loss was approximately HK\$116.9 million as at 31 December 2009, and the Company's ability to distribute dividends is expected to be enhanced as a result of the Proposed Transactions.

DISTRIBUTABLE RESERVES

Zhengzhou Siwei had reserved profit of RMB204,849,000 as of 31 December 2009.

FINANCIAL INFORMATION OF THE TARGET GROUP

WORKING CAPITAL

The Directors (together with the proposed Directors) are of the opinion that, in the absence of unforeseen circumstances and after taking into account (a) the proposed Placing, and (b) the financial resources available to the Enlarged Group after Completion (including its operating cash flow, and available banking and other facilities), the Enlarged Group will have sufficient working capital for a period of twelve months from the date of this circular.

PROFORMA NET TANGIBLE ASSETS

The unaudited pro forma net tangible assets of the Enlarged Group as at 31 December 2009 assuming the Acquisition had taken place on 31 December 2009 would amount to approximately HK\$565.4 million, as set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular.

MATERIAL CHANGES

The Directors (together with the Proposed Directors) confirm that there has been no material changes in the financial or trading position or outlook of the Target Group since 31 December 2009 (being the date to which the last audited financial statements of the Target Group were prepared as set out in Appendix I to this circular) up to and including the Latest Practicable Date, save for (a) the expected total capital expenditure related to the production facilities relocation and consolidation as detailed in the paragraph headed “Expand its production capacity and consolidate its production facilities” in the sub-section headed “Business strategies” in the section headed “Business of the Target Group” of this circular; and (b) the indebtedness position of the Target Group as detailed in the sub-section headed “Indebtedness Statement” in the section headed “Financial Information of the Target Group” of the circular.

FINANCIAL INFORMATION OF THE TARGET GROUP

PROPERTY INTERESTS

The property interests attributable to the Target Group have been valued at approximately 65.7 million as at 30 April 2010 by Greater China Appraisal Limited, an independent property valuer. Details of the Target Group's property interests are set out in the letter and valuation certificates of Greater China Appraisal Limited contained in Appendix IV to this circular.

A reconciliation of the net carrying value of the relevant property interests including land use rights as at 31 December 2009 as recorded in the accountants' report of the Target Group as set out in Appendix I to this circular to their fair value as stated in Appendix IV to this circular is as follows:

	Properties <i>RMB'000</i>
Net carrying value as of 31 December 2009 as recorded in the accountants' reports of the Target Group as set out in Appendix I to this circular	
– Buildings (<i>Note</i>)	53,057
– Prepaid land lease payments	<u>12,249</u>
	65,306
Movements for the period from 1 January 2010 to 30 April 2010	
– Amortization	(103)
– Depreciation	<u>(979)</u>
Net carrying value of 30 April 2010	64,224
Valuation of property interest as of 30 April 2010 as set out in Appendix IV to this circular:	<u>65,700</u>
Surplus	<u><u>1,476</u></u>

Note: Among from the buildings amounted to approximately RMB64,733,000 as at 31 December 2009 as set out in Appendix I to this circular, an amount of approximately RMB11,676,000 is excluded from the valuation in Appendix IV to this circular and is therefore also excluded from this reconciliation.

SHARE CAPITAL

As at the Latest Practicable Date, the Company had only one class of shares in issue, namely, ordinary shares of HK\$0.01 each. The Company's issued share capital upon issue and allotment of the Consideration Shares, the maximum number of the Placing Shares and the Remuneration Shares will be as follows:

HK\$

Authorised share capital:

10,000,000,000	Shares	100,000,000
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Issued and to be issued, fully paid or credited as fully paid upon issue and allotment of the Consideration Shares, the maximum number of the Placing Shares and the Remuneration Shares without taking into account Shares to be issued upon full conversion of all outstanding convertible bonds of the Company:

		<i>HK\$</i>	Approximate percentage of issued share capital (%)
<i>(Shares)</i>			<i>(%)</i>
400,706,581	Shares in issue as at the Latest Practicable Date	4,007,065.81	7.1
4,000,000,000	Consideration Shares to be issued pursuant to the Agreement	40,000,000.00	71.4
1,200,000,000	Maximum number of Placing Shares to be issued pursuant to the Placing	12,000,000.00	21.4
3,205,071	Remuneration Shares to be issued (<i>Note 2</i>)	32,050.71	0.1
<u>5,603,911,652</u>	Total	<u>56,039,116.52</u>	<u>100.0</u>

Notes:

- The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued. The above table takes no account of any Shares which may be allotted and issued upon the exercise of any share options under the share option scheme adopted by the Company on 5 June 2001, and as amended on 24 April 2008 and any outstanding convertible bonds explained below.

SHARE CAPITAL

2. The exact number of the last two batches of Remuneration Shares to be issued to Somerley could not be determined with accuracy as at the Latest Practicable Date. Accordingly, the number of Shares interested by Somerley in the enlarged issued share capital of the Company are for illustration purpose only. For details relating to the Remuneration Shares, please refer to the sub-section headed "Issue of Remuneration Shares" in the "Letter from the Board" of this circular.

On 1 May 2008, the Company issued 3% convertible bonds with principal amount of HK\$400,000 at an initial conversion price of HK\$0.5 per Share. Integrated Financial Holdings Limited and Orient Passage Limited subscribed for these convertible bonds in the principal amount of HK\$220,000 and HK\$180,000, respectively. The maturity date of these convertible bonds is two years after the issue of the convertible bonds, i.e. 30 April 2010. As of the Latest Practicable Date, the Company has not yet redeemed these convertible bonds, and have received written confirmation from the holders of the convertible bonds that they have no present intention to claim against the Company notwithstanding that the Company has not yet repaid the principal or redeemed the convertible bonds.

In September 2008, the Company issued 1% convertible bonds with principal amount of HK\$21,726,600 convertible into the Shares at an initial conversion price of HK\$0.35 per Share. Ancient Castle Group Limited, Power Castle Development Ltd., Girvan Holdings Limited, Pacific Pride Limited and JDFM Investments Limited subscribed for these convertible bonds in the principal amount of HK\$9,800,000, HK\$1,175,000, HK\$3,850,000, HK\$501,200 and HK\$400,400, respectively. A total of 1,144,000 Shares were issued to holders(s) of 1% convertible bonds upon partial exercise of conversion right by other subscriber(s) as at the Latest Practicable Date.

Zero coupon convertible bonds with principal amount of HK\$2,800,000 at an initial conversion price of HK\$0.2 per Share will be issued by the Company to AIC and GFT upon completion of the acquisition of Key Target as detailed in the Company's announcements dated 21 April and 5 May 2009 and the Company's circular dated 25 May 2009. As at the Latest Practicable Date, such acquisition has yet to be completed and accordingly the convertible bonds have not been issued.

Save for disclosed above, none of the conversion rights of the above-mentioned convertible bonds have been exercised as at the Latest Practicable Date. As at the Latest Practicable Date, the Company has 38,400,000 outstanding options granted to certain Directors, employees, advisers and consultants of the Company, carrying rights to subscribe for 38,400,000 Shares. Save for these options and convertible bonds, the Company does not have other outstanding warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date.

All Shares rank *pari passu* in all respects including all rights as to dividends, voting and capital. Since 31 December 2009 (the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, a total of 1,144,000 Shares had been issued by the Company.

SHARE CAPITAL

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, upon Completion and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

RANKING

The Consideration Shares and the Remuneration Shares are ordinary shares in the share capital of the Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this circular.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in Appendix VI to this circular.

Assuming the full exercise of all 38,400,000 outstanding options under the share option scheme of the Company, an additional 38,400,000 Shares will be issued.

Other than the 38,400,000 options disclosed above, there were no other outstanding options, as at the Latest Practicable Date.

Save for the capital of the Company, there is no capital of any member of the Group which is under option, or agreed conditionally or unconditionally to be put under option.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

The Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of the Company in issue as at the date of passing of the relevant resolution on 4 May 2009; and
- (ii) the aggregate nominal value of share capital of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to below.

This issue mandate will expire at the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held; and (iii) the revocation or variation of the authority given under the relevant resolution by an ordinary resolution of the shareholders of the Company in general meeting.

GENERAL MANDATE TO REPURCHASE SHARES

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of the relevant resolution on 4 May 2009.

This repurchase mandate will expire at the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held; and (iii) the revocation or variation of the authority given under the relevant resolution by an ordinary resolution of the shareholders of the Company in general meeting.

For further details of this repurchase mandate, see the paragraph headed “Repurchase by the Company of its own securities” in Appendix VI to this circular.

The following is the text of reports, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

A. ACCOUNTANTS' REPORT ON HK SIWEI

RSM Nelson Wheeler
 中瑞岳華 (香港) 會計師事務所
 Certified Public Accountants

29th Floor,
 Caroline Centre,
 Lee Gardens Two,
 28 Yun Ping Road,
 Hong Kong

30 June 2010

The Board of Directors

ERA Holdings Global Limited

(Formerly known as Era Information & Entertainment Limited)

Somerley Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of International Mining Machinery Siwei Holdings Limited (the "Target") and its subsidiary (hereinafter collectively referred to as the "Target Group") for the period from 22 February 2007 (date of incorporation) to 31 December 2007 and for the years ended 31 December 2008 and 2009 (the "Relevant Periods") for inclusion in the circular dated 30 June 2010 issued by ERA Holdings Global Limited (formerly known as Era Information & Entertainment Limited) (the "Company") in connection with the proposed acquisition of the entire equity interest in the Target (the "Circular").

The Target was incorporated on 22 February 2007 in Hong Kong with limited liability under the Hong Kong Companies Ordinance and acts as investment holding company. As at the date of this report, the Target has the following subsidiary:

Name of subsidiary	Place and date of establishment	Registered capital	Percentage of ownership interest	Principal activities
Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd. ("Zhengzhou Siwei")	The People's Republic of China (the "PRC") 9 June 2003	RMB104,837,000	100%	Manufacturing and sale of mining machinery

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Zhengzhou Siwei was a domestic enterprise established on 9 June 2003 in the PRC with limited liability. On 20 March 2007, the then equity holders of Zhengzhou Siwei entered into a joint venture agreement with the Target whereby the then equity holders of Zhengzhou Siwei agreed to sell 25% equity interest of Zhengzhou Siwei to the Target. Accordingly Zhengzhou Siwei became a sino-foreign equity joint venture since 20 April 2007. Pursuant to a share transfer agreement dated 17 September 2007, all the individual equity holders of Zhengzhou Siwei agreed to sell their entire 75% equity interest in Zhengzhou Siwei to the Target. As a result, Zhengzhou Siwei became a wholly-owned foreign enterprise established in the PRC. Zhengzhou Siwei was engaged in the manufacturing and sale of mining machinery.

All the companies of the Target Group have adopted 31 December as the financial year end date.

We have audited the consolidated financial statements of the Target for the period from 22 February 2007 (date of incorporation) to 31 December 2007 and for the years ended 31 December 2008 and 2009 which have been prepared in accordance with accounting principles generally accepted in Hong Kong in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The statutory financial statements of Zhengzhou Siwei for the Relevant Periods have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC. The statutory financial statements of Zhengzhou Siwei for the three years ended 31 December 2007, 2008 and 2009 were audited in accordance with Independent Auditing Standards for Chinese Certified Public Accountants by Henan Doyen United Certified Public Accountant (河南首席聯合會計師事務所), certified public accountants registered in the PRC.

For the purpose of this report, the directors of the Target have prepared the consolidated financial statements of the Target Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA (the "HKFRS Financial Statements").

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

We have performed our independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information for the Relevant Periods has been prepared from the HKFRS Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of the Target are responsible for the preparation of the HKFRS Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Target and of the Target Group as at 31 December 2007, 2008 and 2009 and of the Target Group's results and cash flows for the Relevant Periods.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		22.2.2007 to 31.12.2007	1.1.2008 to 31.12.2008	1.1.2009 to 31.12.2009
	Note	HK\$'000	HK\$'000	HK\$'000
Turnover	6	138,156	1,108,286	1,404,769
Cost of goods sold		<u>(111,043)</u>	<u>(959,974)</u>	<u>(1,172,838)</u>
Gross profit		27,113	148,312	231,931
Other income	7	1,233	24,351	53,668
Selling expenses		(12,300)	(47,964)	(67,735)
Administrative expenses		(4,756)	(31,246)	(37,699)
Other operating expenses		<u>(17)</u>	<u>(1,780)</u>	<u>(2,937)</u>
Profit from operations		11,273	91,673	177,228
Share of profit of an associate	20	3,784	–	–
Finance costs	9	<u>(626)</u>	<u>(12,765)</u>	<u>(20,066)</u>
Profit before tax		14,431	78,908	157,162
Income tax expense	10	<u>(155)</u>	<u>(16,103)</u>	<u>(26,227)</u>
Profit for the period/year attributable to the owner of The Target	11, 13	<u>14,276</u>	<u>62,805</u>	<u>130,935</u>
Other comprehensive income				
Exchange differences on translating foreign operations		<u>1,242</u>	<u>10,433</u>	<u>–</u>
Other comprehensive income for the period/year, net of tax		<u>1,242</u>	<u>10,433</u>	<u>–</u>
Total comprehensive income for the period/year attributable to the owner of The Target		<u><u>15,518</u></u>	<u><u>73,238</u></u>	<u><u>130,935</u></u>
Earnings per share	14			
Basic		<u><u>14,276</u></u>	<u><u>62,805</u></u>	<u><u>130,935</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 December		
	Note	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Non-current assets				
Property, plant and equipment	15	87,115	144,299	163,103
Prepaid land lease payments	16	5,053	13,863	13,561
Goodwill	17	3,284	3,508	3,508
Intangible assets	18	2,269	3,841	3,750
		<u>97,721</u>	<u>165,511</u>	<u>183,922</u>
Current assets				
Inventories	21	102,783	104,637	183,679
Trade and other receivables	22	203,811	596,934	1,094,723
Prepaid land lease payments	16	113	378	358
Amount due from a director of a subsidiary	23	–	8	23
Amounts due from related companies	24	6,834	97,777	48,296
Pledged bank deposits	26	–	24,649	93,097
Bank and cash balances	26	18,144	4,054	30,947
		<u>331,685</u>	<u>828,437</u>	<u>1,451,123</u>
Current liabilities				
Trade and other payables	27	271,573	664,095	1,061,770
Borrowings	28	30,851	32,954	300,549
Warranty provisions	29	1,755	1,875	1,875
Amount due to ultimate holding company	25	24,570	23,040	23,018
Amount due to a director of a subsidiary	25	167	–	–
Amounts due to related companies	25	5,306	25,030	6,081
Current tax liabilities		160	13,387	22,060
		<u>334,382</u>	<u>760,381</u>	<u>1,415,353</u>
Net current (liabilities)/assets		<u>(2,697)</u>	<u>68,056</u>	<u>35,770</u>
Total assets less current liabilities		95,024	233,567	219,692
Non-current liabilities				
Borrowings	28	79,505	144,810	–
NET ASSETS		<u>15,519</u>	<u>88,757</u>	<u>219,692</u>
Capital and reserves				
Share capital	31	1	1	1
Reserves	32	15,518	88,756	219,691
TOTAL EQUITY		<u>15,519</u>	<u>88,757</u>	<u>219,692</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

STATEMENTS OF FINANCIAL POSITION

	Note	At 31 December		
		2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Non-current assets				
Investment in a subsidiary	19	102,413	102,413	129,713
Current assets				
Other receivables	22	–	5	14
Amount due from a subsidiary	19	–	56,160	28,860
Bank and cash balances		1,682	146	61
		1,682	56,311	28,935
Current liabilities				
Other payables	27	27	72	65
Amount due to ultimate holding company	25	24,570	23,040	23,018
Borrowings	28	–	–	155,663
		24,597	23,112	178,746
Net current (liabilities)/assets		(22,915)	33,199	(149,811)
Total assets less current liabilities		79,498	135,612	(20,098)
Non-current liabilities				
Borrowings	28	79,505	144,810	–
NET LIABILITIES		(7)	(9,198)	(20,098)
Capital and reserves				
Share capital	31	1	1	1
Reserves	32	(8)	(9,199)	(20,099)
CAPITAL DEFICIENCY		(7)	(9,198)	(20,098)

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i> <i>(Note 31)</i>	Statutory reserve <i>HK\$'000</i> <i>(Note 32(c)(i))</i>	Exchange reserve <i>HK\$'000</i> <i>(Note 32(c)(ii))</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Issue of shares on incorporation	1	-	-	-	1
Total comprehensive income for the period	-	-	1,242	14,276	15,518
Transfer	-	1,575	-	(1,575)	-
Changes in equity for the period and at 31 December 2007 and 1 January 2008	1	1,575	1,242	12,701	15,519
Total comprehensive income for the year	-	-	10,433	62,805	73,238
Transfer	-	11,845	-	(11,845)	-
Changes in equity for the year	-	11,845	10,433	50,960	73,238
At 31 December 2008 and 1 January 2009	1	13,420	11,675	63,661	88,757
Total comprehensive income for the year	-	-	-	130,935	130,935
Transfer	-	21,826	-	(21,826)	-
Changes in equity for the year	-	21,826	-	109,109	130,935
At 31 December 2009	1	35,246	11,675	172,770	219,692

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	22.2.2007 to 31.12.2007	1.1.2008 to 31.12.2008	1.1.2009 to 31.12.2009
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	14,431	78,908	157,162
Adjustments for:			
Share of profit of an associate	(3,784)	–	–
Interest income	(39)	(172)	(1,800)
Depreciation	2,244	9,693	15,280
Amortisation of intangible assets	355	1,450	1,649
Amortisation of prepaid land lease payment	41	116	322
Gain on disposal of property, plant and equipment	(28)	(1,046)	(3,179)
Inventories written off	–	868	2,330
Allowance for trade and other receivables	491	2,184	36
Bad debt written off	130	31	–
Interest expenses	617	12,001	19,308
	<u>14,458</u>	<u>104,033</u>	<u>191,108</u>
Operating profit before working capital changes	14,458	104,033	191,108
Increase in inventories	(2,082)	(2,723)	(81,372)
Increase in trade and other receivables	(8,221)	(395,089)	(483,579)
Increase in amount due from a director of a subsidiary	–	(9)	(15)
(Increase)/decrease in amounts due from related companies	(532)	(90,943)	49,481
Increase in trade and other payables	2,635	370,547	413,724
Increase in warranty provision	1,755	120	–
Increase/(decrease) in amounts due to ultimate holding company	24,570	(1,530)	(22)
Decrease in amount due to a director of a subsidiary	–	(167)	–
Increase/(decrease) in amount due to related companies	1,995	(7,819)	(18,949)
	<u>34,578</u>	<u>(23,580)</u>	<u>70,376</u>
Cash generated from/(used in) operations	34,578	(23,580)	70,376
Interest paid	(617)	(12,001)	(19,308)
Tax paid	–	(3,323)	(17,554)
	<u>33,961</u>	<u>(38,904)</u>	<u>33,514</u>
Net cash generated from/(used in) operating activities	33,961	(38,904)	33,514

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

	22.2.2007 to 31.12.2007	1.1.2008 to 31.12.2008	1.1.2009 to 31.12.2009
Note	HK\$'000	HK\$'000	HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(2,708)	(12,934)	(72,325)
Payment for prepaid land lease	–	(8,964)	(11,169)
Purchases of intangible assets	(423)	(2,821)	(1,558)
Proceeds from disposal of property, plant and equipment	439	2,368	22,294
Proceeds from disposal of available-for-sale financial assets	1,197	–	–
Interest received	39	174	1,800
Acquisition of a subsidiary	33(a) (95,086)	–	–
Increase in pledged bank deposits	–	(24,649)	(68,448)
Net cash used in investing activities	<u>(96,542)</u>	<u>(46,826)</u>	<u>(129,406)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowings raised	–	31,868	206,250
Other borrowing raised	79,504	65,304	10,853
Proceeds from issue of shares	1	–	–
Repayment of bank borrowings	–	(31,868)	(94,318)
Net cash generated from financing activities	<u>79,505</u>	<u>65,304</u>	<u>122,785</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
	16,924	(20,426)	26,893
Effect of foreign exchange rate changes	1,220	6,336	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/ YEAR			
	<u>–</u>	<u>18,144</u>	<u>4,054</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR			
	<u><u>18,144</u></u>	<u><u>4,054</u></u>	<u><u>30,947</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	<u><u>18,144</u></u>	<u><u>4,054</u></u>	<u><u>30,947</u></u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)**NOTES TO THE FINANCIAL INFORMATION****1. General information**

The Target is a company incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 22 February 2007.

The address of its registered office and principal place of business was Room 1401 Hutchison House, No. 10 Harcourt Road, Central, Hong Kong.

With effect from 11 February 2010, its registered office and principal place of business was changed to 11th Floor, Dah Sing Life Building, 99 Des Voeux Road Central, Hong Kong.

The Target is an investment holding company. The principal activities of its subsidiary are manufacturing and sale of mining machinery.

In the opinion of the directors of the Target, as at 31 December 2009, Mining Machinery Limited, a company incorporated in Mauritius, is the immediate and ultimate parent, Mr. Emory Williams is considered as the ultimate controlling party of the Target as a result of all the beneficial owners of the ultimate parent entrusted him to exercise their shareholders' rights and powers.

2. Adoption of new and revised Hong Kong Financial Reporting Standards

The Target Group had adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); and Interpretations.

The Target Group has not applied the new HKFRSs that have been issued but are not yet effective. The Target Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material effect on the results of operations and financial position of the Target Group.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)**3. Significant accounting policies**

The Financial Information has been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors of the Target to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Consolidation

The consolidated financial information include the financial information of the Target and its subsidiaries made up to each reporting period end. Subsidiaries are entities over which the Target Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Target Group's share of its carrying amount together with any remaining goodwill relating to the subsidiary and also any related accumulated exchange reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Business combination and goodwill

The purchase method is used to account for the acquisition of subsidiaries by the Target Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Target Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Target Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in consolidated profit or loss.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (t) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

(c) Associates

Associates are entities over which the Target Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group has significant influence.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Target Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Target Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Target Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Target Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Target Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Target Group's share of its carrying amount together with any remaining goodwill relating to the associate and also any related accumulated exchange reserve.

Unrealised profits on transactions between the Target Group and its associates are eliminated to the extent of the Target Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)**(d) Foreign currency translation****(i) Functional and presentation currency**

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Target's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are included in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Target Group entities that have a functional currency different from the Target's presentation currency are translated into the Target's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange reserve.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

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

(e) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2% – 5%
Plant and machinery	10% – 20%
Office equipment	20%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)**(f) Operating leases**

Leases that do not substantially transfer to the Target Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(g) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Target's products development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(h) Intangible assets

Intangible assets represented technical know-how and computer software acquired and are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives which are ranging from three to ten years.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)***(i) Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Target Group transfers substantially all the risks and rewards of ownership of the assets; or the Target Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the profit or loss.

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the profit or loss.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' 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 receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)*Financial guarantee contract liabilities*

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligations under the contracts, as determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of revenue can be measured reliably.

Revenue from the sales of manufactured goods and trading of raw material are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers.

Consultancy fee income is recognised when the service is rendered.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from financial guarantee contracts issued is recognised on a straight-line basis over the term of the guarantee contracts.

(o) Pension obligations

The Target Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Target Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Target Group to the funds.

(p) 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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Target Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(q) Government grants

A government grant is recognised when there is reasonable assurance that the Target Group will comply with the conditions attached to it and that the grant will be received.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(r) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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 Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. 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, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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, except where the Target 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 the end of each reporting period 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.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

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 realised, based on tax rates that have been enacted or substantively enacted by the end of reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Group intends to settle its current tax assets and liabilities on a net basis.

(s) *Related parties*

A party is related to the Target Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Target Group; has an interest in the Target Group that gives it significant influence over the Target Group; or has joint control over the Target Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Target or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (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); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Target Group, or of any entity that is a related party of the Target Group.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)**(t) Impairment of assets**

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible and intangible assets except goodwill, inventories and receivables 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Target 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 or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the 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.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a present 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 expenditures expected to settle the obligation.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

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 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 is remote.

(v) *Events after the reporting period*

Events after the reporting period that provide additional information about the Target Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are considered adjusting events and are reflected in the Financial Information. Events after the end of reporting period that are not adjusting events are disclosed in the notes to the Financial Information when material.

4. Critical judgements and key estimates***Critical judgements in applying accounting policies***

In the process of applying the accounting policies, the directors of the Target have made the following judgements that have the most significant effect on the amounts recognised in the Financial Information (apart from those involving estimations, which are dealt with below).

Legal titles of certain land and buildings

As stated in note 15 to the Financial Information, the titles of certain factory buildings and staff dormitory and cafeteria situated in the People's Republic of China (the "PRC") have not been obtained by the Target Group as at 31 December 2007 and 2008.

The factory buildings were constructed by the Target Group on two parcels of land which were leased from third parties pursuant to relevant tenancy agreements. As the Target Group is not the legal owner of the land use rights of these parcels of land, the Target Group was not provided with the relevant title certificates for the corresponding factory buildings. The staff dormitory and cafeteria were acquired from a third party and the Target Group made certain renovation work to make them suitable for use. The Target Group was not provided with the relevant title certificates of the staff dormitory and cafeteria. It is uncertain that whether there are any defects in the title documents or whether the vendor is the legal owner of the buildings.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

In November 2009, the Target Group disposed of these factory buildings and staff dormitory and cafeteria and the acquirers agreed to undertake any risks relating to the legal title of these buildings pursuant to the respective sale and purchase agreements. Up to the date of the respective date of disposal of the above buildings, there was no dispute over the ownership of these buildings. Based on the above, the directors of Target determine to recognise these buildings as property, plant and equipment on the ground that the Target Group is in substance controlling these buildings during the Relevant Periods and up to the date of disposal of these buildings.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and intangible assets

The Target Group determines the estimated useful lives, residual values and related depreciation and amortisation charges for the Target Group's property, plant and equipment and intangible assets. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. The Target Group will revise the depreciation and amortisation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment loss for bad and doubtful debts

The Target Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade receivables, other receivables and amounts due from related parties and the current creditworthiness of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade receivables, other receivables and amounts due from related parties and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)*(c) Allowance for slow-moving inventories*

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in the future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

5. Financial risk management

The Target Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Foreign currency risk

The Target Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, US dollars and Renminbi ("RMB"). Accordingly the Target Group's profit or loss is substantially independent of changes in foreign currency exchange rate. The Target Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The carrying amounts of the bank and cash balances, trade and other receivables and amounts due from related companies included in the statements of financial position represent the Target Group's maximum exposure to credit risk in relation to the Target Group's financial assets.

The Target Group's credit risk is primarily attributable to its trade receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history. In order to minimise credit risk, the directors of Target review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors of Target consider that the Target Group's credit risk is significantly reduced.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The credit risk on bank and cash balances is limited because the counterparties are either banks with high credit-ratings assigned by international credit-rating agencies or large PRC state-controlled banks.

Other receivables and amounts due from related companies are closely monitored by the directors of the Target.

The Target Group has no significant concentrations of credit risk with exposure spread over a number of counterparties and customers.

(c) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Target Group's financial liabilities is as follows:

	Less than 1 year <i>HK\$'000</i>	Between 1 and 2 years <i>HK\$'000</i>	Between 2 and 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>
At 31 December 2009				
Borrowings	295,120	–	–	–
Trade and other payables	1,061,770	–	–	–
Amount due to ultimate holding company	23,018	–	–	–
Amounts due to related companies	6,081	–	–	–
At 31 December 2008				
Borrowings	33,760	–	199,337	–
Trade and other payables	664,095	–	–	–
Amount due to ultimate holding company	23,040	–	–	–
Amounts due to related companies	25,030	–	–	–
At 31 December 2007				
Borrowings	31,794	–	116,820	–
Trade and other payables	271,573	–	–	–
Amount due to ultimate holding company	24,570	–	–	–
Amount due to a director of a subsidiary	167	–	–	–
Amounts due to related companies	5,306	–	–	–

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

(d) Interest rate risk

The Target Group's exposure to interest-rate risk arises from its bank deposits, bank borrowings and amount due from a related company. The bank borrowings and amount due from a related company mainly bear interests at fixed interest rates and therefore are subject to fair value interest rate risks and the Target Group's operating cash flows are substantially independent of changes in market interest rates. The bank deposits bear interests at variable rates varied with the then prevailing market condition. The exposure of the interest rate risks of the bank balances is insignificant given the existing low bank interest deposit rate.

(e) Categories of financial instruments

	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets:			
Loans and receivables (including cash and cash equivalents)	228,789	723,422	1,267,086
	<u>228,789</u>	<u>723,422</u>	<u>1,267,086</u>
Financial liabilities:			
Financial liabilities at amortised cost	332,467	745,119	1,391,418
	<u>332,467</u>	<u>745,119</u>	<u>1,391,418</u>

(f) Fair values

The carrying amounts of the Target Group's financial assets and financial liabilities as reflected in the statements of financial position approximate their respective fair values.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

6. Turnover

The turnover of the Target Group which represents sales of mining machinery and related spare parts are as follows:

	22.2.2007 to 31.12.2007 <i>HK\$'000</i>	1.1.2008 to 31.12.2008 <i>HK\$'000</i>	1.1.2009 to 31.12.2009 <i>HK\$'000</i>
Sales of mining machineries	133,071	1,081,908	1,338,915
Sales of spare parts	5,085	26,378	65,854
	<u>138,156</u>	<u>1,108,286</u>	<u>1,404,769</u>

7. Other income

	22.2.2007 to 31.12.2007 <i>HK\$'000</i>	1.1.2008 to 31.12.2008 <i>HK\$'000</i>	1.1.2009 to 31.12.2009 <i>HK\$'000</i>
Consultancy fee income	28	–	–
Gain on disposals of property, plant and equipment	–	1,046	3,179
Gain on trading of raw materials	364	3,849	7,074
Government grants	619	–	–
Interest income	39	172	1,800
Processing and subcontracting fees income	10	–	38
Sales of scrap materials	147	18,508	39,454
Others	26	776	2,123
	<u>1,233</u>	<u>24,351</u>	<u>53,668</u>

8. Segment information

The Target Group has one single reportable segment which was managed as a single strategic business unit that engaged in the manufacturing and sale of mining machinery with similar technology and marketing strategy. The Target Group's operating profit or loss is earned or incurred within the PRC from state-owned enterprises and all its operating assets are located in the PRC. Therefore, no business segment or geographical segment is presented.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

All the customers of the Target Group are state-owned enterprises or under the control of state-owned enterprises.

9. Finance costs

	22.2.2007 to 31.12.2007 <i>HK\$'000</i>	1.1.2008 to 31.12.2008 <i>HK\$'000</i>	1.1.2009 to 31.12.2009 <i>HK\$'000</i>
Bank charges	5	413	697
Financial services charges	4	351	61
Discounting charges	–	183	3,037
Interest on bank borrowings	617	2,674	5,418
Interest on loan from a related company	–	1,602	–
Interest on other loan from a third party	–	9,144	10,853
	<u>626</u>	<u>14,367</u>	<u>20,066</u>
Total borrowings costs	626	14,367	20,066
Amount capitalised	–	(1,602)	–
	<u>626</u>	<u>12,765</u>	<u>20,066</u>

10. Income tax expense

	22.2.2007 to 31.12.2007 <i>HK\$'000</i>	1.1.2008 to 31.12.2008 <i>HK\$'000</i>	1.1.2009 to 31.12.2009 <i>HK\$'000</i>
Current tax – PRC			
Enterprise Income Tax			
Provision for the period/year	155	16,103	27,175
Over-provision in prior year	–	–	(948)
	<u>155</u>	<u>16,103</u>	<u>26,227</u>

No provision for Hong Kong Profits Tax has been made for the Relevant Periods as the Target Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The PRC subsidiary, Zhengzhou Siwei, was a domestic enterprise established in the PRC and is required to pay PRC enterprises income tax at a rate of 30% of its taxable income plus a local income tax 3% of its taxable income for the financial year ended 31 December 2007. As it was operated in Zhengzhou High and New Technology Industries Development Zone it was approved as a new and high technology enterprise which was subject to an applicable tax rate of 15% for the period from 1 January 2007 to 20 April 2007. Zhengzhou Siwei became a sino-foreign equity joint venture on 20 April 2007 and subsequently a wholly foreign owned enterprise on 24 September 2007. Pursuant to relevant laws and regulations in the PRC, Zhengzhou Siwei was exempted from PRC enterprise income tax for the two years from its first profit-making year since it became a sino-foreign equity joint venture and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. Zhengzhou Siwei was in its first profit-making year for the financial year ended 31 December 2007 and was exempted from enterprise income tax for eight months from May 2007 to December 2007.

The New Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The New Income Tax Law was effective from 1 January 2008. According to the New Income Tax Law, only a sino-foreign equity joint venture or wholly foreign owned enterprise that is set up prior to 16 March 2007 may continue to enjoy the preferential tax treatments for up to five years starting from 1 January 2008. As a result, Zhengzhou Siwei no longer enjoys the preferential tax treatment since 1 January 2008 but was subject to an applicable tax rate of 15% for the years ended 31 December 2008 and 2009 as it was approved as a new and high technology enterprise and was operated in Zhengzhou High and New Technology Industries Development Zone.

The reconciliation between income tax expense and the product of profit before tax multiplied by PRC enterprise income tax rate is as follows:

	22.2.2007 to 31.12.2007	1.1.2008 to 31.12.2008	1.1.2009 to 31.12.2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax (excluding share of profits of an associate)	10,647	78,908	157,162
Domestic income tax rate	33%	25%	25%
Tax at domestic income tax rate	3,514	19,727	39,291
Tax effect of income that is not taxable	(403)	–	–
Tax effect of expenses that are not deductible	5,713	5,370	4,066
Tax effect of temporary differences not recognised	–	1,742	(1,934)
Effect of tax exemptions granted	(8,484)	–	–
Overprovision in prior year	–	–	(1,579)
Tax effect of concessionary tax rate granted	(185)	(10,736)	(13,617)
Income tax expense	<u>155</u>	<u>16,103</u>	<u>26,227</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

11. Profit for the period/year

The Target Group's profit for the period/year is stated after charging the following:

	22.2.2007 to 31.12.2007 HK\$'000	1.1.2008 to 31.12.2008 HK\$'000	1.1.2009 to 31.12.2009 HK\$'000
Auditor's remuneration	27	33	34
Amortisation of intangible assets (included in administrative expenses)	355	1,450	1,649
Depreciation	2,244	9,693	15,280
Directors' emoluments			
– As directors	–	–	–
– As management	–	–	–
	–	–	–
Operating lease charges			
– Amortisation of prepaid land lease payments	41	116	322
– Land and buildings rentals	221	752	822
Research and development expenditure	227	10	764
Cost of inventories sold [#]	111,043	959,974	1,172,838
Inventories written off (included in other operating expenses)	–	868	2,330
Allowance for trade and other receivables (included in administrative expenses and other operating expenses)	491	2,184	36
Bad debt written off (included in administrative expenses)	130	31	–
Staff costs including directors' emoluments			
Salaries, bonuses and allowances	6,649	53,499	78,654
Retirement benefit scheme contributions	780	7,688	14,411
	<u>7,429</u>	<u>61,187</u>	<u>93,065</u>

[#] For the period/years ended 31 December 2007, 2008 and 2009, cost of inventories sold included the aggregate of staff costs, depreciation and operating lease charges of approximately HK\$7,274,000, HK\$51,249,000 and HK\$85,398,000 respectively which are included in the amounts disclosed separately above.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

12. Directors' and employees' emoluments

The emoluments of each director were as follows:

Name of director	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Discretionary bonus <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Li Rubo	-	-	-	-	-
Williams Emory	-	-	-	-	-
Period ended 31 December 2007	-	-	-	-	-
Li Rubo	-	-	-	-	-
Williams Emory	-	-	-	-	-
Year ended 31 December 2008	-	-	-	-	-
Li Rubo	-	-	-	-	-
Williams Emory	-	-	-	-	-
Year ended 31 December 2009	-	-	-	-	-

No emoluments were paid by the Target Group regarding the services of the directors of the Target during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any emoluments during the Relevant Periods.

The five highest paid individuals in the Target Group are set out below:

	22.2.2007 to 31.12.2007 <i>HK\$'000</i>	1.1.2008 to 31.12.2008 <i>HK\$'000</i>	1.1.2009 to 31.12.2009 <i>HK\$'000</i>
Basic salaries and allowances	1,972	2,978	3,197
Retirement benefit scheme contributions	81	75	60
	2,053	3,053	3,257

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The emoluments fell within the following band:

	Number of individuals		
	22.2.2007 to 31.12.2007	1.1.2008 to 31.12.2008	1.1.2009 to 31.12.2009
Nil to HK\$1,000,000	5	4	4
HK\$1,000,001 – HK\$1,500,000	–	1	1
	5	5	5
	5	5	5

During the Relevant Periods, no emoluments were paid by the Target Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office.

13. Profit for the period/year attributable to the owner of the Target

The profit for the period from 22 February 2007 (date of incorporation) to 31 December 2007 and for the years ended 31 December 2008 and 2009 attributable to the owner of the Target included loss of approximately HK\$8,000, HK\$9,191,000 and HK\$10,899,000 respectively which have been dealt with in the Financial Information of the Target.

14. Earnings per share***Basic earnings per share***

The calculation of basic earnings per share attributable to the owner of the Target is based on the profit for the period from 22 February 2007 (date of incorporation) to 31 December 2007 and for the years ended 31 December 2008 and 2009 attributable to the owner of the Target of approximately HK\$14,276,000, HK\$62,805,000, and HK\$130,935,000 respectively and one ordinary share issued during the Relevant Periods.

Diluted earnings per share

No diluted earnings per share are presented as the Target did not have any dilutive potential ordinary sharing during the Relevant Periods.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

15. Property, plant and equipment

	Target Group					Total HK\$'000
	Buildings HK\$'000	Plant and Machinery HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	
Cost						
Acquisition of a subsidiary	21,766	23,760	2,402	2,474	36,631	87,033
Additions	8	503	351	444	1,402	2,708
Transfer	14,620	15,892	–	–	(30,512)	–
Disposals	–	–	–	(446)	–	(446)
Exchange differences	467	524	11	(1)	(929)	72
At 31 December 2007 and 1 January 2008	36,861	40,679	2,764	2,471	6,592	89,367
Additions	1,705	12,782	837	2,906	42,339	60,569
Transfer	7,456	5,403	–	–	(12,859)	–
Disposals	(7)	(1,339)	(4)	(988)	–	(2,338)
Exchange differences	2,825	3,348	217	234	1,454	8,078
At 31 December 2008 and 1 January 2009	48,840	60,873	3,814	4,623	37,526	155,676
Additions	8,980	22,860	1,701	3,104	16,552	53,197
Transfer	48,650	2,633	–	–	(51,283)	–
Disposals	(21,820)	(516)	(18)	(141)	–	(22,495)
At 31 December 2009	84,650	85,850	5,497	7,586	2,795	186,378
Accumulated depreciation						
Charge for the period	592	1,247	148	257	–	2,244
Disposals	–	–	–	(62)	–	(62)
Exchange differences	19	40	5	6	–	70
At 31 December 2007 and 1 January 2008	611	1,287	153	201	–	2,252
Charge for the year	2,315	6,168	743	467	–	9,693
Disposals	(2)	(756)	(3)	(256)	–	(1,017)
Exchange differences	120	272	35	22	–	449
At 31 December 2008 and 1 January 2009	3,044	6,971	928	434	–	11,377
Charge for the year	4,909	8,326	970	1,075	–	15,280
Disposals	(3,315)	(19)	(7)	(41)	–	(3,382)
At 31 December 2009	4,638	15,278	1,891	1,468	–	23,275
Carrying amount						
At 31 December 2009	80,012	70,572	3,606	6,118	2,795	163,103
At 31 December 2008	45,796	53,902	2,886	4,189	37,526	144,299
At 31 December 2007	36,250	39,392	2,611	2,270	6,592	87,115

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

At 31 December 2007, 2008 and 2009, the carrying amount of property, plant and equipment pledged as security for the Target Group's bank borrowings amounted to approximately HK\$18,756,000, HK\$49,933,000 and HK\$85,072,000 respectively.

At 31 December 2007 and 2008, the Target Group's buildings included certain buildings with carrying amounts of approximately HK\$10,824,000 and HK\$18,406,000 respectively for which the Target Group did not have the relevant building ownership certificates. These buildings were disposed of during the year ended 31 December 2009.

At 31 December 2009, the Target Group's buildings included four buildings with carrying amount of approximately HK\$13,268,000 erected on lands which the Target Group did not have the relevant land use rights (*note 22*). Accordingly, the Target Group has not obtained the relevant construction permits and building ownership certificates for these buildings. However, the Target Group obtained the following certificates in relation to the construction of and right to use these buildings:

- (a) Pursuant to the certificate of confirmation (《證明》) issued by Planning Administration Bureau of Xingyang (滎陽市規劃管理局) dated 21 October 2009, the construction plan of the Target Group in Guangwu Town, Xingyang City (滎陽市廣武鎮) complies with the overall development programme of Guangwu Town, Xingyang City (滎陽市廣武鎮). The Target Group is in the process of obtaining the relevant construction plan permit.
- (b) Pursuant to the certificate of confirmation (《證明》) issued by Construction Administration Bureau of Xingyang (滎陽市建設管理局) dated 18 October 2009, Construction Administration Bureau of Xingyang (滎陽市建設管理局) allowed the Target Group to continue the construction process and at the same time applying the relevant construction permit.
- (c) Pursuant to the certificate of confirmation (《關於鄭州四維機電設備製造有限公司相關房屋使用情況的確認函》), issued by Real Estate Administration Bureau of Xingyang (滎陽市房地產管理局) dated 18 October 2009, despite the fact that the Target Group constructed certain buildings which did not have building ownership certificates, Real Estate Administration Bureau of Xingyang (滎陽市房地產管理局) agreed that the Target Group can continue to use the buildings before applying for the building ownership certificates.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

According to a legal opinion issued by Commerce & Finance Law Offices (the "PRC Lawyer" or "北京市通商律師事務所"), based on the above certificates of confirmation despite the Target Group failed to apply for the relevant permits on construction of the buildings in accordance with the PRC laws and regulations, the probability of penalty imposed by Planning Administration Bureau of Xingyang (滎陽市規劃管理局), Construction Administration Bureau of Xingyang (滎陽市建設管理局) and Real Estate Administration Bureau of Xingyang (滎陽市房地產管理局) is low.

The Target Group will apply for the building ownership certificates of these buildings after obtaining the relevant land use rights. Based on the legal opinion and the fact that these buildings have been used by the Target Group effective from 1 January 2009, the directors of the Target are of the opinion that these buildings should be treated as assets of the Target Group and included in the property, plant and equipment.

16. Prepaid land lease payments

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of period/year	–	5,166	14,241
Acquisition of a subsidiary	5,209	–	–
Additions	–	8,551	–
Amortisation of prepaid land lease payments	(41)	(116)	(322)
Exchange differences	(2)	640	–
	<u>5,166</u>	<u>14,241</u>	<u>13,919</u>
At end of period/year	5,166	14,241	13,919
Current portion	(113)	(378)	(358)
	<u>5,053</u>	<u>13,863</u>	<u>13,561</u>
Non-current portion	<u>5,053</u>	<u>13,863</u>	<u>13,561</u>

The Target Group's prepaid land lease payments represent payments for land use rights in the PRC under medium lease terms.

At 31 December 2007, 2008 and 2009, the carrying amount of certain prepaid land lease payments pledged as security for the Target Group's bank borrowings amounted to approximately HK\$5,166,000, HK\$5,398,000, and HK\$13,919,000 respectively.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

17. Goodwill

	Target Group <i>HK\$'000</i>
Cost	
Arising on acquisition of a subsidiary (<i>note 33(a)</i>)	3,284
At 31 December 2007 and 1 January 2008	3,284
Exchange differences	224
At 31 December 2008, 1 January 2009 and 31 December 2009	3,508
Carrying amount	
At 31 December 2009	<u>3,508</u>
At 31 December 2008	<u>3,508</u>
At 31 December 2007	<u>3,284</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to Zhengzhou Siwei, which was engaged in the manufacturing and sales of mining machinery.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Target Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Target Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors of the Target for the next five years with the residual period using the growth rate of 2%. This rate does not exceed the average long-term growth rate for the relevant markets.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The rate used to discount the forecast cash flows from the Target Group's manufacturing and sales of mining machinery activities is 21.4%, 15.6% and 15.3% as at 31 December 2007, 2008 and 2009.

18. Intangible assets

	Target Group		Total HK\$'000
	Technical know-how (purchased) HK\$'000	Computer Software (purchased) HK\$'000	
Cost			
Acquisition of a subsidiary	2,079	120	2,199
Additions	419	4	423
Exchange differences	13	–	13
At 31 December 2007 and 1 January 2008	2,511	124	2,635
Additions	1,805	1,016	2,821
Exchange differences	233	43	276
At 31 December 2008 and 1 January 2009	4,549	1,183	5,732
Additions	544	1,014	1,558
At 31 December 2009	5,093	2,197	7,290
Accumulated amortisation			
Amortisation for the period	345	10	355
Exchange differences	10	1	11
At 31 December 2007 and 1 January 2008	355	11	366
Amortisation for the year	1,369	81	1,450
Exchange differences	71	4	75
At 31 December 2008 and 1 January 2009	1,795	96	1,891
Amortisation for the year	1,444	205	1,649
At 31 December 2009	3,239	301	3,540
Carrying amount			
At 31 December 2009	1,854	1,896	3,750
At 31 December 2008	2,754	1,087	3,841
At 31 December 2007	2,156	113	2,269

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The average remaining amortisation period of the technical know-how as at 31 December 2007, 2008 and 2009 was 23 months, 17 months and 13 months respectively. Moreover, the average remaining amortisation period of computer software as at 31 December 2007, 2008 and 2009 was 108 months, 103 months and 101 months respectively.

The Target Group carried out a review of the recoverable amount of its intangible assets for each of the years ended 31 December 2007, 2008 and 2009, with regard to the market conditions of its products. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The directors of the Target are of the opinion that there was no impairment in the intangible assets as at 31 December 2007, 2008 and 2009.

19. Investment in a subsidiary

	Target		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Unlisted investment in the PRC, at cost	102,413	102,413	129,713
Current assets			
Amount due from a subsidiary	–	56,160	28,860

The amount due from a subsidiary was unsecured, interest free and repayable on 12 March 2009. It was subsequently extended to 31 March 2010 pursuant to an agreement dated 25 April 2009 and was further extended to 31 March 2011 pursuant to an agreement dated 5 March 2010 entered into between the Target and the subsidiary.

Particulars of the subsidiary at 31 December 2007, 2008 and 2009 are as follows:

Name	Place of incorporation/ registration and operation	Registered/fully paid up capital			Percentage of equity interest attributable to the Target	Principal activities
		At 31 December				
		2007	2008	2009		
Zhengzhou Siwei	The PRC	RMB80,937,000/ RMB59,925,000	RMB80,937,000/ RMB59,925,000	RMB104,837,000/ RMB83,825,000	100%	Manufacturing and sale of mining machinery

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Zhengzhou Siwei was established as a domestic enterprise on 9 June 2003 in the PRC with limited liability. On 20 March 2007, the then equity holders of Zhengzhou Siwei entered into a joint venture agreement with the Target whereby the then equity holders of Zhengzhou Siwei agreed to sell 25% equity interest in Zhengzhou Siwei in aggregate to the Target. Accordingly Zhengzhou Siwei became a sino-foreign equity joint venture on 20 April 2007 and an associate of the Target. Pursuant to a share transfer agreement dated 17 September 2007, all the individual equity holders of Zhengzhou Siwei agreed to sell their entire 75% equity interest in Zhengzhou Siwei in aggregate to the Target. As a result, Zhengzhou Siwei became a wholly-owned subsidiary of the Target and a wholly-owned foreign enterprise established in the PRC.

On 31 July 2004, Zhengzhou Siwei revalued certain of its property, plant and equipment and prepaid land lease payments with the revaluation gains of RMB21,012,000 credited to the capital reserve account of Zhengzhou Siwei in accordance with the Generally Accepted Accounting Principles of the PRC.

Pursuant to a resolution passed on 16 September 2004 by the then equity holders of Zhengzhou Siwei, the directors of Zhengzhou Siwei were authorised to capitalise RMB34,381,000 standing to the credit of the capital reserve account of Zhengzhou Siwei, which comprised capital reserve of RMB13,369,000 and the revaluation gains of RMB21,012,000 as stated above, by applying such sum as paying up in full RMB34,381,000 capital in proportion to equity holders of Zhengzhou Siwei, whose names appeared on the register of member of Zhengzhou Siwei at the close of business on 16 September 2004.

Since the revaluation of land use rights and property, plant and equipment amounting to RMB21,012,000 is not in compliance with the subsequent measurement requirement of HKAS 17 "Leases" and HKAS 16 "Property, Plant and Equipment", the revaluation gains and the corresponding increase in capital as mentioned in the paragraphs above is reversed for the purpose of this Financial Information prepared in accordance with HKFRSs. Therefore the fully paid-up capital as disclosed in this Financial Information prepared in accordance with HKFRSs does not agree with the fully paid-up capital as registered by Zhengzhou Siwei.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

20. Investment in an associate

	Target		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments, at cost	24,569	–	–
Reclassified as investment in a subsidiary	(24,569)	–	–
	<u>–</u>	<u>–</u>	<u>–</u>

Pursuant to a joint venture agreement dated 20 March 2007, the Target acquired 25% equity interest in Zhengzhou Siwei which became an associate of the Target. Pursuant to a share transfer agreement dated 17 September 2007, the Target further acquired 75% equity interest in Zhengzhou Siwei (*note 19*). The investment in an associate has been reclassified to investment in a subsidiary as at 31 December 2007.

Summarised financial information in respect of the Target Group's associate was set out below:

	22.2.2007 to 31.12.2007	1.1.2008 to 31.12.2008	1.1.2009 to 31.12.2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Period from 21 March 2007 to 17 September 2007			
Total revenue	<u>406,523</u>	<u>–</u>	<u>–</u>
Total profit for the period	<u>15,138</u>	<u>–</u>	<u>–</u>
Target Group's share of an associate's profit for the period	<u>3,784</u>	<u>–</u>	<u>–</u>

The Target Group's share of an associate's profit for the period from 22 February 2007 (date of incorporation) to 31 December 2007 included share of the associate's taxation of HK\$583,000.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Zhengzhou Siwei acquired 100% and 20% equity interest in a subsidiary and an associate respectively in 2006 and disposed of them in 2007. As no sufficient records has been kept for the subsidiary and the associate, the assets, liabilities and results of these disposed subsidiary and associate have not been consolidated into the financial statements for the year ended 31 December 2007. Accordingly, Target Group's share of Zhengzhou Siwei's profit for the period from 22 February 2007 (date of incorporation) to 31 December 2007 had not included the results of these disposed subsidiary and associate in the Financial Information.

21. Inventories

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	65,844	68,979	81,552
Work in progress	28,024	34,560	71,789
Finished goods	8,915	1,098	30,338
	<u>102,783</u>	<u>104,637</u>	<u>183,679</u>

As at 31 December 2008 and 2009, inventories with carrying amount of HK\$37,886,000 and HK\$57,350,000 respectively were pledged as security for banking facilities granted to the Target Group.

22. Trade and other receivables

	Target Group			Target		
	At 31 December			At 31 December		
	2007	2008	2009	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	173,822	562,782	959,080	-	-	-
Allowances for bad and doubtful debts	(1,909)	(4,297)	(4,965)	-	-	-
	171,913	558,485	954,115	-	-	-
Bills receivables	3,723	2,273	1,250	-	-	-
Prepayments	24,018	29,421	42,349	-	-	-
Deposits	2,078	4,869	13,668	-	-	-
Other receivables	2,079	1,886	83,341	-	5	14
	<u>203,811</u>	<u>596,934</u>	<u>1,094,723</u>	<u>-</u>	<u>5</u>	<u>14</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The Target Group's trading terms with customers other than that for retention receivables is mainly due on delivery. Deposits payment is normally required. The credit term for retention receivables is generally one year. The Target Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors of Zhengzhou Siwei.

An ageing analysis of trade receivables, based on the delivery date, and net of allowances, are as follows:

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	76,498	395,910	683,351
91 to 180 days	66,582	90,021	116,438
181 to 365 days	17,810	41,097	85,657
Over 1 year	11,023	31,457	68,669
	<u>171,913</u>	<u>558,485</u>	<u>954,115</u>

Reconciliation of allowance for trade receivables:

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of period/year	–	1,909	4,297
Acquisition of a subsidiary	588	–	–
Allowance for the period/year	1,374	2,546	1,516
Reversal of allowances	(94)	(363)	(848)
Exchange differences	41	205	–
At end of year/period	<u>1,909</u>	<u>4,297</u>	<u>4,965</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

As of 31 December 2007, 2008 and 2009, trade receivables of approximately HK\$124,133,000, HK\$464,795,000, and HK\$806,464,000 respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	56,723	339,298	624,738
91 to 180 days	46,130	61,424	83,522
181 to 365 days	10,257	32,616	55,920
Over 1 year	11,023	31,457	42,284
	<u>124,133</u>	<u>464,795</u>	<u>806,464</u>

The carrying amounts of the Target Group's trade receivables are denominated in RMB.

Included in other receivables at 31 December 2009 are deposits for acquisition of four parcels of land in Guangwu Town, Xingyang City (滎陽市廣武鎮) of approximately HK\$20,885,000, for which the directors of the Target and the existing owners of these parcels of land have not yet concluded the prices for the transfer of the legal titles. Accordingly, the Target Group did not have the relevant land use right certificates. During the years ended 31 December 2008 and 2009, the Target Group constructed four buildings on these parcels of land. The Target Group obtained the following certificates in relation to the land use right:

- (a) Pursuant to the certificate of confirmation 《證明》 issued by Planning Administration Bureau of Xingyang (滎陽市規劃管理局) dated 21 October 2009, the construction plan of the Target Group in Guangwu Town, Xingyang City (滎陽市廣武鎮) was satisfied the overall development programme of Guangwu Town, Xingyang City (滎陽市廣武鎮). The Target Group is in the process of obtaining the relevant construction plan permit.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

- (b) Pursuant to the certificate of confirmation 《証明》 issued by Land Resources Bureau of Xingyang (滎陽市國土資源局) dated 5 January 2010, the Target Group has not yet obtained the land use right certificates. The procedures in relation to the change in the usage of land are in progress and the Target Group is allowed to construct and use the properties for production and operation on these parcels of land before obtaining the relevant land use right certificates without any penalty.

According to a legal opinion issued by the PRC Lawyer, based on the above certificates of confirmation, despite the fact that the Target Group's buildings were erected on the land before obtaining the relevant land use right certificates, the probability of penalty imposed by Planning Administration Bureau of Xingyang (滎陽市規劃管理局) and Land Resources Bureau of Xingyang (滎陽市國土資源局) is low.

23. Amount due from a director of a subsidiary

Amount due from a director of a subsidiary, who was a key management personnel of the Target Group, disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name	Terms of loan	Target Group		Maximum Amount outstanding during the year HK\$'000
		Balance at 31 December 2008 HK\$'000	Balance at 1 January 2008 HK\$'000	
Mr. Wang Fu	Non-trade in nature, unsecured, repayable on demand and interest-free	8	-	23

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Name	Terms of loan	Target Group		Maximum Amount outstanding during the year HK\$'000
		Balance at 31 December 2009 HK\$'000	Balance at 1 January 2009 HK\$'000	
Mr. Wang Fu	Non-trade in nature, unsecured, repayable on demand and interest-free	23	8	135

The directors of the Target expect the above amount due from a director of a subsidiary will be settled before the completion of the acquisition of the entire equity interest in the Target by the Company.

24. Amounts due from related companies

Amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name	Name of directors/ key management personnel having beneficial interests	Target Group		Maximum amount outstanding during the year HK\$'000
		Balance at 31 December 2007 HK\$'000	Balance at 22 February 2007 HK\$'000	
Zhengzhou Siwei Mechanical and Electrical Sales Co., Ltd.	Mr. Wang Fu	3,177	–	3,177
Shenyang Siwei Mechanical and Electrical Co., Ltd.	Mr. Wang Fu	2,593	–	2,593
Beijing Siwei Coal Mine Technical Co., Ltd.	Mr. Li Rubo	532	–	532
Jixi Coal Mine Mechanical Co., Ltd.	Mr. Li Rubo and Mr. Williams Emory	532	–	532
		<u>6,834</u>	<u>–</u>	

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Name	Name of directors/ key management personnel having beneficial interests	Target Group		Maximum amount outstanding during the year <i>HK\$'000</i>
		Balance at 31 December 2008 <i>HK\$'000</i>	Balance at 1 January 2008 <i>HK\$'000</i>	
Zhengzhou Siwei Mechanical and Electrical Sales Co., Ltd.	Mr. Wang Fu	38,844	3,177	38,844
Shenyang Siwei Mechanical and Electrical Co., Ltd.	Mr. Wang Fu	9,464	2,593	9,464
Jiazuo Siwei Hydraulic & Mechanical Co., Ltd.	Mr. Wang Fu	241	–	241
Beijing Siwei Coal Mine Technical Co., Ltd.	Mr. Li Rubo	568	532	568
Huainan Long Wall Coal Mine Mechanical Co., Ltd.	Mr. Williams Emory	33,976	–	33,976
Jixi Coal Mine Mechanical Co., Ltd.	Mr. Li Rubo and Mr. Williams Emory	14,684	532	14,684
		<u>97,777</u>	<u>6,834</u>	<u> </u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Name	Name of directors/ key management personnel having beneficial interests	Target Group		Maximum amount outstanding during the year HK\$'000
		Balance at 31 December 2009 HK\$'000	Balance at 1 January 2009 HK\$'000	
Zhengzhou Siwei Mechanical and Electrical Sales Co., Ltd.	Mr. Wang Fu	–	38,844	60,344
Shenyang Siwei Mechanical and Electrical Sales Co., Ltd.	Mr. Wang Fu	–	9,464	15,902
Jiazuo Siwei Hydraulic & Mechanical Co., Ltd.	Mr. Wang Fu	–	241	1,419
Beijing Siwei Coal Mine Technical Co., Ltd.	Mr. Li Rubo	568	568	568
Huainan Long Wall Coal Mine Mechanical Co., Ltd.	Mr. Williams Emory	33,044	33,976	33,976
Jixi Coal Mine Mechanical Co., Ltd.	Mr. Li Rubo and Mr. Williams Emory	14,684	14,684	14,684
		48,296	97,777	

All the above balances are unsecured, interest-free and have no fixed repayment terms.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

25. Amounts due to ultimate holding company/a director of a subsidiary/related companies

The amounts due are unsecured, interest-free and have no fixed repayment terms except for a loan from a related company of approximately HK\$7,587,000 (equivalent to approximately RMB7,132,000) and HK\$33,991,000 (equivalent to approximately RMB29,912,000) at 31 December 2007 and 2008 respectively which are unsecured, bearing interest at 7% per annum and have no fixed repayment terms.

26. Pledged bank deposits and bank and cash balances

The Target Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Target Group as set out in notes 27 and 28 to the Financial Information. The deposits are in RMB and at fixed interest rate of 1.98% per annum as at 31 December 2008 and 2009 and therefore are subject to fair value interest rate risk.

At 31 December 2007, 2008 and 2009, the bank and cash balances of the Target Group denominated in RMB amounted to approximately HK\$16,462,000, HK\$3,908,000 and HK\$30,875,000 respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. Trade and other payables

	Target Group			Target Group		
	At 31 December			At 31 December		
	2007	2008	2009	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	206,411	445,943	772,065	-	-	-
Bills payables	-	45,455	100,962	-	-	-
Accruals and other payables	524	22,459	22,300	27	72	65
Advance receipts from customers	53,158	119,291	91,469	-	-	-
VAT and other tax	8,631	25,767	66,527	-	-	-
Accrued staff salaries and welfares	2,849	5,180	8,447	-	-	-
	<u>271,573</u>	<u>664,095</u>	<u>1,061,770</u>	<u>27</u>	<u>72</u>	<u>65</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

An ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	127,546	276,652	416,085
91 to 180 days	42,587	120,849	127,694
181 to 365 days	13,158	32,068	91,336
Over 1 year	23,120	16,374	136,950
	<u>206,411</u>	<u>445,943</u>	<u>772,065</u>

Bills payables have an average maturity period of 180 days, interest-free and are secured by charges over the Target Group's bank deposits, inventories and guarantees given by a director of the subsidiary and third parties.

The carrying amounts of the Target Group's trade payables are denominated in RMB.

28. Borrowings

	Target Group			Target		
	At 31 December			At 31 December		
	2007	2008	2009	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term bank loans, secured	30,851	32,954	144,886	–	–	–
Other loans	79,505	144,810	155,663	79,505	144,810	155,663
	<u>110,356</u>	<u>177,764</u>	<u>300,549</u>	<u>79,505</u>	<u>144,810</u>	<u>155,663</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The borrowings are repayable as follows:

	Target Group			Target		
	At 31 December			At 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
On demand or within one year	30,851	32,954	300,549	–	–	155,663
In the second year	–	–	–	–	–	–
In the third to fifth years, inclusive	79,505	144,810	–	79,505	144,810	–
After five years	–	–	–	–	–	–
	<u>110,356</u>	<u>177,764</u>	<u>300,549</u>	<u>79,505</u>	<u>144,810</u>	<u>155,663</u>
<i>Less:</i> Amount due for settlement within 12 months (shown under current liabilities)	<u>(30,851)</u>	<u>(32,954)</u>	<u>(300,549)</u>	<u>–</u>	<u>–</u>	<u>(155,663)</u>
Amount due for settlement after 12 months	<u>79,505</u>	<u>144,810</u>	<u>–</u>	<u>79,505</u>	<u>144,810</u>	<u>–</u>

The carrying amounts of the Target Group's borrowings are denominated in the following currencies:

	RMB HK\$'000	USD HK\$'000	Total HK\$'000
At 31 December 2007			
Short term bank loans	30,851	–	30,851
Other loans	<u>–</u>	<u>79,505</u>	<u>79,505</u>
	<u>30,851</u>	<u>79,505</u>	<u>110,356</u>
At 31 December 2008			
Short term bank loans	32,954	–	32,954
Other loans	<u>–</u>	<u>144,810</u>	<u>144,810</u>
	<u>32,954</u>	<u>144,810</u>	<u>177,764</u>
At 31 December 2009			
Short term bank loans	144,886	–	144,886
Other loans	<u>–</u>	<u>155,663</u>	<u>155,663</u>
	<u>144,886</u>	<u>155,663</u>	<u>300,549</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The average interest rates were as follows:

	Target Group		
	At 31 December		
	2007	2008	2009
Short term bank loans	5.5% – 7.5%	7.0% – 10.5%	4.9% – 7.4%
Other loans	<u>8.0%</u>	<u>8.0%</u>	<u>8.0%</u>

As at 31 December 2007, 2008 and 2009, short term bank loans of HK\$30,851,000, HK\$11,364,000, HK\$144,886,000 respectively and other loans are arranged at fixed interest rates and expose the Target Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Target Group to cash flow interest rate risk.

The short term bank loans are secured by charges over the Target Group's property, plant and equipment, prepaid land lease payments and guarantees given by a director of the subsidiary, a related company and third parties.

The other loans are secured by the first floating charge over all the Target's undertaking, property, assets and rights whatsoever and wheresoever both present and future and the share pledge agreement made between the ultimate parent and the lender.

29. Warranty provisions

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of period/year	–	1,755	1,875
Acquisition of a subsidiary	872	–	–
Addition provisions	1,755	1,875	1,875
Provision used	(299)	(2,874)	(2,400)
Underprovision in prior year	–	999	525
Unused provisions reversed	(573)	–	–
Exchange differences	–	120	–
At end of period/year	<u>1,755</u>	<u>1,875</u>	<u>1,875</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The warranty provision represents the Target Group's best estimate of the Target Group's liability under 12 months warranties granted on mining machinery based on prior experience and industry averages for defective products.

30. Deferred tax

Under the New Income Tax Law and the Implementation Rules, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from sources within the PRC. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Target Group, the applicable rate is 5%.

According to the notice Caishui 2008 No. 1 released by the Ministry of Finance and the State Administrative of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from enterprise income tax. Accordingly, the retained profits as at 31 December 2007 in the Target Group's PRC subsidiary will not be subject to 5% withholding tax on the future distributions.

The Target Group is liable to withholding tax on dividends distributed from the Target Group's PRC subsidiary in respect of their profits generated on or after 1 January 2008. As at 31 December 2008 and 2009, temporary differences relating to the undistributed profits of the Target Group's PRC subsidiary amounted to RMB54,738,000 (equivalent to HK\$60,151,000) and RMB160,441,000 (equivalent to HK\$180,268,000) respectively. Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these foreign-invested enterprises and it has been determined that it is probable that profits will not be distributed by these foreign-invested enterprises in the foreseeable future.

No provision for deferred taxation has been made in the Financial Information as the tax effect of temporary differences for the Relevant Periods is immaterial to the Target Group.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

31. Share capital

	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$10 each		
At 31 December 2007, 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	<u>1,000</u>	<u>10</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$10 each		
Issue of share on incorporation and at 31 December 2007, 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	<u>1</u>	<u>1</u>

The Target was incorporated on 22 February 2007 with an authorised share capital of HK\$10,000 divided into 1,000 ordinary shares of HK\$10 each. On the same date, 1 ordinary share of HK\$10 each was allotted and issued at par to introduce initial capital.

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern and to maximise the return to the equity holders through the optimisation of the debt and equity balance.

The Target Group currently does not have any specific policies and processes for managing capital and is not subject to any externally imposed capital requirements.

32. Reserves

(a) *The Target Group*

The amounts of the Target Group's reserves and movements therein are presented in the consolidated statements of comprehensive income and consolidated statements of changes in equity.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

(b) Target

	<i>Note</i>	Accumulated losses HK\$'000
Issue of share on incorporation	<i>31</i>	–
Loss for the period		<u>(8)</u>
At 31 December 2007 and 1 January 2008		(8)
Loss for the year		<u>(9,191)</u>
At 31 December 2008 and 1 January 2009		(9,199)
Loss for the year		<u>(10,900)</u>
At 31 December 2009		<u><u>(20,099)</u></u>

*(c) Nature and purpose of reserves**(i) Statutory reserve*

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Target Group's PRC subsidiary under the applicable laws and regulations in the PRC.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(d) to the Financial Information.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

33. Notes to the consolidated statements of cash flows

(a) Acquisition of a subsidiary

As detailed in note 20 to the Financial Information, the Target acquired 25% equity interest in Zhengzhou Siwei on 20 March 2007 and subsequently acquired the remaining 75% equity interest of Zhengzhou Siwei pursuant to a share transfer agreement dated 17 September 2007. As a result, Zhengzhou Siwei became a wholly-owned subsidiary of the Target.

The fair value of the identifiable assets and liabilities of Zhengzhou Siwei acquired as at its date of acquisition is as follows:

	Fair value recognised on acquisition <i>HK\$'000</i>	Previous carrying value <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	87,033	84,493
Prepaid land lease payments	5,209	5,209
Intangible assets	2,199	2,199
Available-for-sale financial assets	1,197	1,197
Inventories	100,700	100,700
Trade and other receivables	196,212	196,212
Amounts due from related parties	6,302	6,302
Bank and cash balances	8,236	8,236
Trade and other payables	(268,065)	(268,065)
Bank borrowings	(30,851)	(30,851)
Warranty provisions	(872)	(872)
Amounts due to related parties	(3,478)	(3,478)
	<u>103,822</u>	<u><u>101,282</u></u>
<i>Less:</i> Share of profit of an associate	(3,784)	
Goodwill	3,284	
	<u>103,322</u>	
Satisfied by:		
Cash	<u>103,322</u>	
Net cash outflow arising on acquisition:		
Cash consideration paid	103,322	
Cash and cash equivalents acquired	<u>(8,236)</u>	
	<u><u>95,086</u></u>	

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

The goodwill arising on the acquisition of Zhengzhou Siwei is attributable to the anticipated profitability of the distribution of the Target Group's products in the markets and the anticipated future operating synergies from the combination.

For the period from 22 February 2007 (date of incorporation) to 31 December 2007, Zhengzhou Siwei contributed approximately HK\$12,708,000 to the Target Group's profit for the period between the date of acquisition and 31 December 2007.

Had the acquisition been completed on 22 February 2007, total Target Group's turnover for the period from 22 February 2007 (date of incorporation) to 31 December 2007 would have been HK\$542,807,000, and profit for the period would have been HK\$22,017,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Target Group that actually would have been achieved had the acquisition been completed on 22 February 2007, nor is intended to be a projection of future results.

(b) Major non-cash transactions

- (i) Payments for prepaid land lease payments of HK\$3,087,000 and HK\$682,000 for the period from 22 February 2007 to 31 December 2007 and for the year ended 31 December 2008 respectively; and purchases of property, plant and equipment of HK\$4,500,000 and HK\$25,205,000 for the period from 22 February 2007 to 31 December 2007 and for the year ended 31 December 2008 respectively were financed by the loan from a related company.
- (ii) Included in prepayments as at 31 December 2007, 2008 and 2009 were advance payments of HK\$9,473,000, HK\$8,995,000 and HK\$6,834,000 respectively for the acquisition of property, plant and equipment; and as at 31 December 2007, 2008 and 2009 were advance payments of HK\$3,196,000, HK\$4,477,000 and HK\$20,885,000 respectively for the prepaid land lease.
- (iii) Included in accruals and other payables as at 31 December 2008 and 2009 were amounts of HK\$21,976,000 and HK\$5,927,000 respectively in respect of cost of property, plant and equipment and prepaid land lease not yet paid.
- (iv) Included in share capital as at 31 December 2009 was amount of HK\$27,300,000 in respect of cost of loan capitalisation of amount due from a subsidiary.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)**34. Contingent liabilities**

Save as disclosed below, as at 31 December 2007, 2008 and 2009, the Target Group did not have any significant contingent liabilities.

Legal titles of certain land and buildings

As set out in notes 15 and 22 to the Financial Information, the Target Group erected four buildings on certain parcels of land which the Target Group did not have relevant land use rights. Notwithstanding the local government authorities, including Planning Administration Bureau of Xingyang (滎陽市規劃管理局), Construction Administration Bureau of Xingyang (滎陽市建設管理局), Real Estate Administration Bureau of Xingyang (滎陽市房地產管理局) and Land Resources Bureau of Xingyang (滎陽市國土資源局), have issued certificates of confirmation in respect of the Target Group's right to use these buildings and parcels of land, the Target Group may subject to penalty for the breach of PRC laws and regulations. The directors of Target do not consider a provision for liability be necessary on the grounds that there are no reliable estimate that can be made; and, according to the legal opinion issued by the PRC Lawyer, based on the above certificates of confirmation, the probability of penalty is low.

Financial guarantees issued

Pursuant to directors' meeting of Zhengzhou Siwei held on 19 February 2009, the directors of Zhengzhou Siwei resolved to approve a cross guarantee agreement from which Zhengzhou Siwei and a third party mutually agreed to issue cross guarantee to the extent of HK\$68,182,000 (equivalent to RMB60,000,000) to banks in respect of banking facilities granted to Zhengzhou Siwei and the third party. Under such cross guarantee, Zhengzhou Siwei and the third party are jointly and severally liable for all or any of each of their borrowings from the banks for one year.

Pursuant to a directors' meeting of Zhengzhou Siwei held on 16 June 2009, the directors of Zhengzhou Siwei resolved to approve a cross guarantee agreement from which Zhengzhou Siwei and a third party has mutually agreed to issue cross guarantee to the extent of HK\$56,818,000 (equivalent to RMB50,000,000) to banks in respect of banking facilities granted to Zhengzhou Siwei and the third party. Under such cross guarantee, Zhengzhou Siwei and the third party are jointly and severally liable for all or any of each of their borrowings from the banks for one year.

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

At 31 December 2009, the directors of the Target do not consider it probable that a claim will be made against Zhengzhou Siwei under the above guarantees. The maximum liability of Zhengzhou Siwei as at 31 December 2009 under the guarantees is the amount of bank loans drawn under the cross guarantees by the third parties at that date of HK\$113,636,000 (equivalent to RMB100,000,000).

The fair value of the cross guarantee at date of inception is not material and is not recognised in the Financial Information.

35. Capital commitments

The Target Group's capital commitments at the end of the Relevant Periods are as follows:

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment			
Contracted but not provided for	29,435	899	19,190
Prepaid land lease payments			
Authorised but not contracted for	–	227,273	240,238
	<u>29,435</u>	<u>228,172</u>	<u>259,428</u>

36. Lease commitments

At 31 December 2007, 2008 and 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Target Group		
	At 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	671	746	823
In the second to fifth years inclusive	2,966	3,294	–
After five years	2,064	1,332	–
	<u>5,701</u>	<u>5,372</u>	<u>823</u>

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

Operating lease payments represent rentals payable by the Target Group for certain parcels of land of its factories premises. The leases are negotiated for terms ranging from four to fifteen years and do not include contingent rentals.

37. Related party transactions

The amounts due from/to a director of a subsidiary/related companies/ultimate holding company are disclosed in note 23, 24 and 25.

In addition to those related party transactions and balances disclosed elsewhere in the Financial Information, the Target Group had the following transactions with its related parties during the Relevant Periods.

(a)

	22.2.2007 to 31.12.2007 <i>HK\$'000</i>	1.1.2008 to 31.12.2008 <i>HK\$'000</i>	1.1.2009 to 31.12.2009 <i>HK\$'000</i>
Agency fees paid to a related company*	4,929	18,991	21,214
Market development fees paid to a related company*	1,584	–	–
Commission paid to a related company*	–	–	683
Consultancy fees received from a related company^	701	–	–
Consultancy fees paid to:			
– a related company#	1,856	–	–
– a related company^	–	–	517
Sales of goods to a related company*	268	3,381	13,590
Sales of raw and scrapped materials to related companies*	2,448	11	888
Raw materials purchased from related companies*	9,084	13,958	2,500
Property, plant and equipment acquired from:			
– a subsidiary+	15,596	–	–
– a related company*	–	–	314
Property, plant and equipment disposed to a related company*	–	–	318

A. ACCOUNTANTS' REPORT ON THE TARGET (Continued)

* A director of a subsidiary who is also a key management personnel of the Target Group, Mr. Wang Fu, was the controlling equity holder of the related companies.

A director, Mr. Li Rubo, was the controlling equity holder of the related company.

^ The directors, Mr. Li Rubo and Mr. Williams Emory, were the controlling equity holders of the related company.

+ The subsidiary was disposed during the period ended 31 December 2007

- (b) The remuneration of the Target's directors and other members of key management personnel during the Relevant Periods were as follows:

	22.2.2007 to 31.12.2007 <i>HK\$'000</i>	1.1.2008 to 31.12.2008 <i>HK\$'000</i>	1.1.2009 to 31.12.2009 <i>HK\$'000</i>
Short-term benefits	757	1,281	1,396
Post-employment benefits	<u>20</u>	<u>25</u>	<u>30</u>
	<u><u>777</u></u>	<u><u>1,306</u></u>	<u><u>1,426</u></u>

38. Subsequent financial statements

Audited financial statements have not been prepared by the Target Group in respect of any period subsequent to 31 December 2009.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 June 2010

The Board of Directors

ERA Holdings Global Limited

(Formerly known as Era Information & Entertainment Limited)

Somerley Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd. ("Zhengzhou Siwei") for each of the three years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods") for inclusion in the circular dated 30 June 2010 issued by ERA Holdings Global Limited (formerly known as Era Information & Entertainment Limited) (the "Company") in connection with the proposed acquisition of the entire equity interest in International Mining Machinery Siwei Holdings Limited ("the Target") (the "Circular").

Zhengzhou Siwei was a domestic enterprise established on 9 June 2003 in the People's Republic of China (the "PRC") with limited liability. On 20 March 2007, the then equity holders of Zhengzhou Siwei entered into a joint venture agreement with the Target whereby the then equity holders of Zhengzhou Siwei agreed to sell 25% equity interest of Zhengzhou Siwei to the Target. Accordingly Zhengzhou Siwei became a sino-foreign equity joint venture since 20 April 2007. Pursuant to a share transfer agreement dated 17 September 2007, all the individual equity holders of Zhengzhou Siwei agreed to sell their entire 75% equity interest in Zhengzhou Siwei to the Target. As a result, Zhengzhou Siwei became a wholly-owned foreign enterprise established in the PRC. Zhengzhou Siwei was engaged in the manufacturing and sale of mining machinery.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

During the Relevant Periods, Zhengzhou Siwei held 100% equity interest in a domestic enterprise, Jiaozuo Siwei Hydraulic Machinery Company Limited (焦作四維液壓機械有限公司) (“Jiaozuo Siwei”), and 20% equity interest in a domestic enterprise, Baoji Xingyuan Mechanical & Electrical Equipment Manufacturing Company Limited (寶雞星源機電設備製造有限公司) (formerly known as 寶雞四維煤機製造有限公司) (“Baoji Siwei”).

Zhengzhou Siwei disposed of its 100% equity interest in Jiaozuo Siwei on 14 September 2007. Due to the reason as mentioned in note 15 to the Financial Information, the results and cash flows of Jiaozuo Siwei for the period from the date of acquisition in 2006 to the date of disposal have not been included in the Financial Information for the Relevant Periods.

Zhengzhou Siwei also disposed of its 12.5% equity interest in Baoji Siwei on 14 September 2007 and further disposed of its remaining 7.5% equity interest in Baoji Siwei on 9 October 2007. Due to the reason as mentioned in note 16 to the Financial Information, the results of Baoji Siwei for the period from 1 January 2006, date of acquisition of Baoji Siwei, to its respective date of disposal was not accounted for in the Financial Information using the equity method for the Relevant Periods.

The statutory financial statements of Zhengzhou Siwei for the Relevant Periods have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited in accordance with Independent Auditing Standards for Chinese Certified Public Accountants by Henan Doyen United Certified Public Accountant (河南首席聯合會計師事務所), certified public accountants registered in the PRC.

For the purpose of this report, the directors of Zhengzhou Siwei have prepared financial statements of Zhengzhou Siwei for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “HKFRS Financial Statements”).

We have performed our independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Financial Information for the Relevant Periods has been prepared from the HKFRS Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

The directors of Zhengzhou Siwei are responsible for the preparation of the HKFRS Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

As Jiaozuo Siwei and Baoji Siwei were disposed of during the Relevant Periods and Zhengzhou Siwei has no control and influence to these companies after the disposals, Zhengzhou Siwei's management has not been able to gather sufficient information to consolidate Jiaozuo Siwei's results, up to the respective date of disposal into the HKFRS financial statements and to account for the result of Baoji Siwei in the HKFRS financial statements by the equity method of accounting. This is not in accordance with the requirements of HKAS 27 "Consolidated and Separate Financial Statements" and HKAS 28 "Investments in Associates" issued by the HKICPA. We are unable to quantify the effect on the departure from the requirements of HKAS 27 and HKAS 28.

In our opinion, except for the possible effect on the Financial Information had the results of Jiaozuo Siwei been consolidated in the Financial Information and the results of Baoji Siwei be equity accounted for in the Financial Information, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Zhengzhou Siwei as at 31 December 2007, 2008, and 2009, and of Zhengzhou Siwei's results and cash flows for the Relevant Periods.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

STATEMENTS OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December		
		2007	2008	2009
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	5	563,531	1,008,540	1,236,197
Cost of goods sold		<u>(459,997)</u>	<u>(873,576)</u>	<u>(1,032,098)</u>
Gross profit		103,534	134,964	204,099
Other income	6	6,744	22,158	47,324
Selling expenses		(39,221)	(43,647)	(59,606)
Administrative expenses		(16,097)	(28,390)	(33,136)
Other operating expenses		<u>(1,191)</u>	<u>(1,619)</u>	<u>(2,584)</u>
Profit from operations		53,769	83,466	156,097
Finance costs	8	(2,232)	(3,295)	(8,107)
Loss on disposal of a subsidiary		<u>(30,565)</u>	<u>–</u>	<u>–</u>
Profit before tax		20,972	80,171	147,990
Income tax expense	9	<u>(2,343)</u>	<u>(14,654)</u>	<u>(23,080)</u>
Profit for the year and total comprehensive income for the year attributable to equity holders of Zhengzhou Siwei	10	<u><u>18,629</u></u>	<u><u>65,517</u></u>	<u><u>124,910</u></u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

STATEMENTS OF FINANCIAL POSITION

	Note	At 31 December		
		2007 RMB'000	2008 RMB'000	2009 RMB'000
Non-current assets				
Property, plant and equipment	12	79,500	124,596	141,143
Prepaid land lease payments	13	4,750	12,199	11,934
Intangible assets	14	2,133	3,380	3,300
Investment in a subsidiary	15	–	–	–
Investment in an associate	16	–	–	–
		<u>86,383</u>	<u>140,175</u>	<u>156,377</u>
Current assets				
Inventories	17	96,616	92,081	161,637
Trade and other receivables	18	191,583	525,298	963,344
Prepaid land lease payments	13	106	332	315
Amount due from a director	19	–	8	20
Amounts due from related companies	19	6,424	86,044	42,501
Pledged bank deposits	20	–	21,691	81,925
Bank and cash balances	20	15,475	3,439	27,180
		<u>310,204</u>	<u>728,893</u>	<u>1,276,922</u>
Current liabilities				
Trade and other payables	21	255,251	584,339	934,300
Bank borrowings	22	29,000	29,000	127,500
Warranty Provisions	23	1,650	1,650	1,650
Amount due to an equity holder	19	–	49,365	25,368
Amount due to a director	19	158	–	–
Amounts due to related companies	19	4,987	22,027	5,351
Current tax liabilities		151	11,780	19,413
		<u>291,197</u>	<u>698,161</u>	<u>1,113,582</u>
Net current assets		<u>19,007</u>	<u>30,732</u>	<u>163,340</u>
NET ASSETS		<u><u>105,390</u></u>	<u><u>170,907</u></u>	<u><u>319,717</u></u>
Capital and reserves				
Paid-up capital	25	59,925	59,925	83,825
Reserves	26	45,465	110,982	235,892
TOTAL EQUITY		<u><u>105,390</u></u>	<u><u>170,907</u></u>	<u><u>319,717</u></u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

STATEMENTS OF CHANGES IN EQUITY

	Paid-up capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2007	59,925	33	4,711	22,092	86,761
Total comprehensive income for the year	-	-	-	18,629	18,629
Transfer	-	-	3,449	(3,449)	-
Changes in equity for the year	-	-	3,449	15,180	18,629
At 31 December 2007 and 1 January 2008	59,925	33	8,160	37,272	105,390
Total comprehensive income for the year	-	-	-	65,517	65,517
Transfer	-	-	10,779	(10,779)	-
Changes in equity for the year	-	-	10,779	54,738	65,517
At 31 December 2008 and 1 January 2009	59,925	33	18,939	92,010	170,907
Total comprehensive income for the year	-	-	-	124,910	124,910
Issuance of shares for loan capitalisation	23,900	-	-	-	23,900
Transfer	-	-	19,207	(19,207)	-
Changes in equity for the year	23,900	-	19,207	105,703	148,810
At 31 December 2009	83,825	33	38,146	197,713	319,717

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

STATEMENTS OF CASH FLOW

	Year ended 31 December		
	2007 RMB'000	2008 RMB'000	2009 RMB'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	20,972	80,171	147,990
Adjustment for:			
Finance costs	1,902	2,600	7,440
Loss on disposal of a subsidiary	30,565	–	–
Amortisation of prepaid land lease payments	88	106	282
Depreciation	5,393	8,821	13,447
Amortisation of intangible assets	857	1,320	1,451
Bad debts written off	126	29	–
Allowance for trade and other receivables	1,299	1,987	32
Inventories written off	559	790	2,051
Loss/(gain) on disposals of property, plant and equipment	233	(952)	(2,798)
Exchange gain	–	–	(97)
Interest income	(58)	(157)	(1,584)
Operating profit before working capital changes	61,936	94,715	168,214
(Increase)/decrease in inventories	(34,080)	3,745	(71,607)
Increase in trade and other receivables	(98,235)	(335,784)	(425,541)
Decrease in amount due from an associate	943	–	–
Decrease in amount due from equity holders	1,518	–	–
Increase in amount due from a director	–	(8)	(12)
(Increase)/decrease in amounts due from related companies	(2,771)	(79,619)	43,543
Increase in trade and other payables	122,702	309,749	364,082
Increase in warranty provision	830	–	–
Decrease in amount due to a subsidiary	(402)	–	–
(Decrease)/increase in amount due to equity holders	(1,108)	49,365	–
Increase/(decrease) in amount due to a director	158	(158)	–
Decrease in amounts due to related companies	(2,283)	(7,198)	(16,676)
Cash generated from operations	49,208	34,807	62,003
Income taxes paid	(5,291)	(3,025)	(15,447)
Interest paid	(1,724)	(2,600)	(7,439)
Finance lease charges paid	(178)	–	–
Net cash generated from operating activities	42,015	29,182	39,117

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
CASH FLOW FROM			
 INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(42,741)	(11,383)	(63,644)
Payments for prepaid land leases	(1,872)	(7,888)	(9,829)
Purchase of intangible assets	(1,428)	(2,567)	(1,371)
Proceeds from disposals of property, plant and equipment	2,580	2,154	19,618
Proceeds from disposal of an associate	1,880	–	–
Interest received	58	157	1,584
Increase in pledged bank deposits	–	(21,691)	(60,234)
Net cash used in investing activities	<u>(41,523)</u>	<u>(41,218)</u>	<u>(113,876)</u>
CASH FLOWS FROM			
 FINANCING ACTIVITIES			
Bank borrowings raised	35,000	29,000	181,500
Repayment of bank borrowings	(12,000)	(29,000)	(83,000)
Repayments of finance lease payables	(10,000)	–	–
Proceeds from finance lease raised	–	–	–
Net cash generated from financing activities	<u>13,000</u>	<u>–</u>	<u>98,500</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	13,492	(12,036)	23,741
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,983</u>	<u>15,475</u>	<u>3,439</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR REPRESENTED BY BANK AND CASH BALANCE	<u>15,475</u>	<u>3,439</u>	<u>27,180</u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**NOTES TO THE FINANCIAL INFORMATION****1. General information**

Zhengzhou Siwei was established as a domestic enterprise on 9 June 2003 in the People's Republic of China (the "PRC") with limited liability. On 20 March 2007, the then equity holders of Zhengzhou Siwei entered into a joint venture agreement with the Target whereby the then equity holders of Zhengzhou Siwei agreed to sell 25% equity interest in Zhengzhou Siwei to the Target. Accordingly Zhengzhou Siwei became a sino-foreign equity joint venture on 20 April 2007. Pursuant to a share transfer agreement dated 17 September 2007, all the individual equity holders of Zhengzhou Siwei agreed to sell their entire 75% equity interest in Zhengzhou Siwei in aggregate to the Target. As a result, Zhengzhou Siwei became a wholly-owned subsidiary of the Target and a wholly-owned foreign enterprise established in the PRC.

The address of its registered office and principal place of business is No. 7 Jinsuo Road, High & New Technology Industries Development Zone, Zhengzhou, Henan, the PRC.

Zhengzhou Siwei was engaged in the manufacturing and sale of mining machinery.

In the opinion of the director of Zhengzhou Siwei, as at 31 December 2009, the Target, a company incorporated in Hong Kong, is the immediate holding company; Mining Machinery Limited, a company incorporated in Mauritius, is the ultimate holding company, Mr. Emory Williams is considered as the ultimate controlling party of Zhengzhou Siwei as a result of all the beneficial owners of the ultimate parent entrusted him to exercise their shareholders' rights and powers.

2. Significant accounting policies

Zhengzhou Siwei has previously prepared its financial statements in accordance with the relevant accounting rules and regulations applicable in the PRC (the "PRC GAAP"). For the purpose of this report, Zhengzhou Siwei has, for the first time, adopted all the HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

Zhengzhou Siwei has not applied the new HKFRSs that have been issued but are not yet effective. Zhengzhou Siwei has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material effect on the results of operations and financial position of Zhengzhou Siwei.

The Financial Information has been prepared under the historical cost convention.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors of Zhengzhou Siwei to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information are disclosed in note 3 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Subsidiaries

Investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by Zhengzhou Siwei on the basis of dividends received and receivable.

(b) Associates

Investments in associates are stated at cost less allowance for impairment losses. The results of associates are accounted for by Zhengzhou Siwei on the basis of dividends received and receivable.

(c) Foreign currency translation**(i) Functional and presentation currency**

Items included in the Financial Information are measured using the currency of the primary economic environment in which Zhengzhou Siwei operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is Zhengzhou Siwei's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are included in profit or loss.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**(d) Property, plant and equipment**

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Zhengzhou Siwei and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2% – 5%
Plant and machinery	10% – 20%
Office equipment	20%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Operating leases

Leases that do not substantially transfer to Zhengzhou Siwei all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**(f) *Research and development expenditure***

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from Zhengzhou Siwei's products development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(g) *Intangible assets*

Intangible assets represented technical know-how and computer software acquired and are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives which are ranging from three to ten years.

(h) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**(i) Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when Zhengzhou Siwei becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; Zhengzhou Siwei transfers substantially all the risks and rewards of ownership of the assets; or Zhengzhou Siwei neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the profit or loss.

(j) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that Zhengzhou Siwei will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' 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 receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)***(k) Cash and cash equivalents***

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of Zhengzhou Siwei's cash management are also included as a component of cash and cash equivalents.

(l) Financial liabilities and equity instruments

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless Zhengzhou Siwei has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)*Trade and other payables*

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to Zhengzhou Siwei and the amount of revenue can be measured reliably.

Revenue from the sales of manufactured goods and trading of raw material are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers.

Consultancy fee income is recognised when the service is rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from financial guarantee contracts issued is recognised on a straight-line basis over the term of the guarantee contracts.

(n) Pension obligations

Zhengzhou Siwei contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by Zhengzhou Siwei and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by Zhengzhou Siwei to the funds.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**(o) 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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of Zhengzhou Siwei that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(p) Government grants

A government grant is recognised when there is reasonable assurance that Zhengzhou Siwei will comply with the conditions attached to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Zhengzhou Siwei with no future related costs are recognised in profit or loss in the period in which they become receivable.

(q) Taxation

Income tax represents the sum of the current tax and deferred tax.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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. Zhengzhou Siwei's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. 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, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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 except where Zhengzhou Siwei 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 the end of each reporting period 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 realised, based on tax rates that have been enacted or substantively enacted by the end of reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Zhengzhou Siwei intends to settle its current tax assets and liabilities on a net basis.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**(r) Related parties**

A party is related to Zhengzhou Siwei if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, Zhengzhou Siwei; has an interest in Zhengzhou Siwei that gives it significant influence over Zhengzhou Siwei; or has joint control over Zhengzhou Siwei;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of Zhengzhou Siwei or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (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); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of Zhengzhou Siwei, or of any entity that is a related party of Zhengzhou Siwei.

(s) Impairment of assets

At the end of each reporting period, Zhengzhou Siwei reviews the carrying amounts of its tangible and intangible assets except inventories and receivables 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, Zhengzhou Siwei estimates the recoverable amount of the cash-generating unit to which the asset belongs.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

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 or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the 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.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Zhengzhou Siwei has a present 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 expenditures 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 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 is remote.

(u) Events after the reporting period

Events after the reporting period that provide additional information about Zhengzhou Siwei's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are considered adjusting events and are reflected in the Financial Information. Events after the end of reporting period that are not adjusting events are disclosed in the notes to the Financial Information when material.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**3. Critical judgements and key estimates*****Critical judgements in applying accounting policies***

In the process of applying the accounting policies, the directors of Zhengzhou Siwei have made the following judgements that have the most significant effect on the amounts recognised in the Financial Information (apart from those involving estimations, which are dealt with below).

Legal titles of certain land and buildings

As stated in note 12 to the Financial Information, the titles of certain factory buildings and staff dormitory and cafeteria situated in the People's Republic of China (the "PRC") have not been obtained by Zhengzhou Siwei as at 31 December 2007 and 2008.

The factory buildings were constructed by Zhengzhou Siwei on two parcels of land which were leased from third parties pursuant to relevant tenancy agreements. As Zhengzhou Siwei is not the legal owner of the land use rights of these parcels of land, Zhengzhou Siwei was not provided with the relevant title certificates for the corresponding factory buildings. The staff dormitory and cafeteria were acquired from a third party and Zhengzhou Siwei made certain renovation work to make them suitable for use. Zhengzhou Siwei was not provided with the relevant title certificates of the staff dormitory and cafeteria. It is uncertain that whether there are any defects in the title documents or whether the vendor is the legal owner of the buildings.

In November 2009, Zhengzhou Siwei disposed of these factory buildings and staff dormitory and cafeteria and the acquirers agreed to undertake any risks relating to the legal title of these buildings pursuant to the respective sale and purchase agreements. Up to the date of the respective date of disposal of the above buildings, there was no dispute over the ownership of these buildings. Based on the above, the directors of Zhengzhou Siwei determine to recognise these buildings as property, plant and equipment on the ground that Zhengzhou Siwei is in substance controlling these buildings during the Relevant Periods and up to the date of disposal of these buildings.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)*(a) Property, plant and equipment and intangible assets*

Zhengzhou Siwei determines the estimated useful lives, residual values and related depreciation and amortisation charges for Zhengzhou Siwei's property, plant and equipment and intangible assets. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Zhengzhou Siwei will revise the depreciation and amortisation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment loss for bad and doubtful debts

Zhengzhou Siwei makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade receivables, other receivables and amounts due from related parties and the current creditworthiness of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade receivables, other receivables and amounts due from related parties and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(c) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in the future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

4. Financial risk management

Zhengzhou Siwei's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. Zhengzhou Siwei's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Zhengzhou Siwei's financial performance.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**(a) Foreign currency risk**

Zhengzhou Siwei has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB. Accordingly Zhengzhou Siwei's profit or loss is substantially independent of changes in foreign currency exchange rate. Zhengzhou Siwei currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. Zhengzhou Siwei will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The carrying amounts of the bank and cash balances, trade and other receivables and amounts due from related companies included in the statements of financial position represent Zhengzhou Siwei's maximum exposure to credit risk in relation to Zhengzhou Siwei's financial assets.

Zhengzhou Siwei's credit risk is primarily attributable to its trade receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history. In order to minimise credit risk, the directors of Zhengzhou Siwei review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors of Zhengzhou Siwei consider that Zhengzhou Siwei's credit risk is significantly reduced.

The credit risk on bank and cash balances is limited because the counterparties are either banks with high credit-ratings assigned by international credit-rating agencies or large PRC state-controlled banks.

Other receivables and amounts due from related companies are closely monitored by the directors of Zhengzhou Siwei.

Zhengzhou Siwei has no significant concentrations of credit risk with exposure spread over a number of counterparties and customers.

(c) Liquidity risk

Zhengzhou Siwei's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

The maturity of Zhengzhou Siwei's financial liabilities as at 31 December 2007, 2008 and 2009 is within one year.

(d) Interest rate risk

Zhengzhou Siwei's exposure to interest-rate risk arises from its bank deposits, bank borrowings and amount due from a related company. The bank borrowings and amount due from a related company mainly bear interests at fixed interest rates and therefore are subject to fair value interest rate risks and Zhengzhou Siwei's operating cash flows are substantially independent of changes in market interest rates. The bank deposits bear interests at variable rates varied with the then prevailing market condition. The exposure of the interest rate risks of the bank balances is insignificant given the existing low bank interest deposit rate.

(e) Categories of financial instruments

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets:			
Loans and receivables (including cash and cash equivalents)	213,482	636,480	1,114,970
Financial liabilities:			
Financial liabilities at amortised cost	<u>289,396</u>	<u>684,731</u>	<u>1,092,519</u>

(f) Fair values

The carrying amounts of Zhengzhou Siwei's financial assets and financial liabilities as reflected in the statements of financial position approximate their respective fair values.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

5. Turnover

The turnover of Zhengzhou Siwei which represents sales of mining machinery and related spare parts are as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Sales of mining machineries	548,882	984,536	1,178,246
Sales of spare parts	14,649	24,004	57,951
	<u>563,531</u>	<u>1,008,540</u>	<u>1,236,197</u>

6. Other income

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Consultancy fee income	680	–	–
Exchange gain	–	–	97
Gain on disposals of property, plant and equipment	–	952	2,798
Gain on trading of raw materials	285	3,502	6,225
Government grants	600	–	–
Interest income	58	157	1,584
Processing and subcontracting fees income	243	–	33
Sales of scrap materials	3,544	16,842	34,720
Others	1,334	705	1,867
	<u>6,744</u>	<u>22,158</u>	<u>47,324</u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**7. Segment information**

Zhengzhou Siwei has one single reportable segment which was managed as a single strategic business unit that engaged in the manufacturing and sale of mining machinery with similar technology and marketing strategy. Zhengzhou Siwei's operating profit or loss is earned or incurred within the PRC from state-owned enterprises and all its operating assets are located in the PRC. Therefore, no business segment or geographical segment is presented.

All the customers of Zhengzhou Siwei are state-owned enterprises or under the control of state-owned enterprises.

8. Finance costs

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank charges	292	375	614
Financial services charges	38	320	53
Discounting charges	100	167	2,673
Finance lease charges	178	–	–
Interest on bank borrowings	1,624	2,433	4,767
Interest on loan from a related company	138	1,458	–
	<u>2,370</u>	<u>4,753</u>	<u>8,107</u>
Total borrowings costs	2,370	4,753	8,107
Amount capitalised	(138)	(1,458)	–
	<u>2,232</u>	<u>3,295</u>	<u>8,107</u>

9. Income tax expense

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax – PRC-Enterprise Income Tax			
Provision for the year	2,343	14,654	23,914
Over-provision in prior year	–	–	(834)
	<u>2,343</u>	<u>14,654</u>	<u>23,080</u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

Pursuant to relevant laws and regulations in the PRC applicable for the financial year ended 31 December 2007, Zhengzhou Siwei is required to pay PRC enterprise income tax at a rate of 30% of its taxable income plus a local income tax 3% of its taxable income.

For the period up to 20 April 2007, Zhengzhou Siwei was a domestic enterprise operated in Zhengzhou High and New Technology Industries Development Zone and was approved as a new and high technology enterprise which was subject to an applicable tax rate of 15%.

Zhengzhou Siwei became a sino-foreign equity joint venture on 20 April 2007 and subsequently a wholly-owned foreign enterprise on 24 September 2007. Pursuant to relevant laws and regulations in the PRC, Zhengzhou Siwei was exempted from PRC enterprise income tax for the two years from its first profit-making year since it became a sino-foreign equity joint venture and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. Zhengzhou Siwei was in its first profit-making year for the financial year ended 31 December 2007 and was exempted from enterprise income tax for eight months from May 2007 to December 2007.

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law was effective from 1 January 2008. According to the new tax law, only a sino-foreign equity joint venture or wholly-owned foreign enterprise that is set up prior to 16 March 2007 may continue to enjoy the preferential tax treatments for up to five years starting from 1 January 2008. As a result, Zhengzhou Siwei no longer enjoys the preferential tax treatment since 1 January 2008 but was subject to an applicable tax rate of 15% for the years ended 31 December 2008 and 2009 as it was approved as a new and high technology enterprise and was operated in Zhengzhou High and New Technology Industries Development Zone.

The reconciliation between income tax expense and the product of profit before tax multiplied by PRC enterprise income tax rate is as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Profit before tax	20,972	80,171	147,990
Domestic income tax rate	33%	25%	25%
Tax at domestic income tax rate	6,921	20,043	36,997
Tax effect of income that is not taxable	(1,084)	–	–
Tax effect of expenses that are not deductible	17,085	2,796	1,157
Tax effect of temporary differences not recognised	1,372	1,585	(1,702)
Effect of tax exemptions granted	(19,140)	–	–
Overprovision in prior year	–	–	(1,390)
Tax effect of concessionary tax rate granted	(2,811)	(9,770)	(11,982)
Income tax expense	2,343	14,654	23,080

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

10. Profit for the year

Zhengzhou Siwei's profit for the Relevant Periods is stated after charging the following:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Auditor's remuneration	12	12	12
Amortisation of intangible assets (included in administrative expenses)	857	1,320	1,451
Depreciation	5,393	8,821	13,447
Directors' emoluments			
– As directors	–	–	–
– As management	1,082	1,188	1,255
	1,082	1,188	1,255
Operating lease charges			
– Amortisation of prepaid land lease payments	88	106	282
– Land and buildings rentals	644	684	723
Research and development expenditure	220	9	672
Cost of inventories sold [#]	459,997	873,576	1,032,098
Inventories written off (included in other operating expenses)	559	790	2,051
Allowance for trade and other receivables (included in administrative expenses and other operating expenses)	1,299	1,987	32
Bad debts written off (included in administrative expenses)	126	29	–
Loss on disposals of property, plant and equipment	233	–	–
Loss on disposal of a subsidiary	30,565	–	–
Staff costs including directors' emoluments			
Salaries, bonuses and allowances	27,771	48,684	69,215
Retirement benefit scheme contributions	2,254	6,996	12,681
	<u>30,025</u>	<u>55,680</u>	<u>81,896</u>

[#] For the years ended 31 December 2007, 2008 and 2009, cost of inventories sold included the aggregate of staff costs, depreciation and operating lease charges of approximately RMB26,827,000, RMB46,636,000 and RMB75,150,000 respectively which are included in the amounts disclosed separately above.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

11. Directors' and employees' emoluments

The emoluments of each director were as follows:

Name of director	Fees <i>RMB'000</i>	Salaries and allowances <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Wang Fu	–	734	–	20	754
Chen Binjun	–	76	–	5	81
Ma Baozhu	–	76	–	5	81
Wang Yongfa	–	76	–	5	81
Yang Zhenfu	–	85	–	–	85
Li Xiaowen	–	–	–	–	–
Yang Junhua	–	–	–	–	–
Emory Williams	–	–	–	–	–
Zang Kexing	–	–	–	–	–
Chen Dake	–	–	–	–	–
Li Rubo	–	–	–	–	–
Year ended 31 December 2007	–	1,047	–	35	1,082
Wang Fu	–	1,002	163	23	1,188
Emory Williams	–	–	–	–	–
Li Rubo	–	–	–	–	–
Year ended 31 December 2008	–	1,002	163	23	1,188
Wang Fu	–	1,003	226	26	1,255
Emory Williams	–	–	–	–	–
Li Rubo	–	–	–	–	–
Year ended 31 December 2009	–	1,003	226	26	1,255

There was no arrangement under which a director waived or agreed to waive any emoluments during the Relevant Periods.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

The five highest paid individuals in Zhengzhou Siwei included one, one and one director, for the year ended 31 December 2007, 2008 and 2009 respectively, whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four, four and four highest paid individuals for the years ended 31 December 2007, 2008 and 2009 respectively are set out below:

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and allowances	869	1,545	1,586
Retirement benefit scheme contributions	44	45	26
	<u>913</u>	<u>1,590</u>	<u>1,612</u>

The emoluments fell within the following band:

	Number of individuals		
	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Nil to RMB1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no emoluments were paid by Zhengzhou Siwei to any of the directors or the highest paid individuals as an inducement to join or upon joining the Zhengzhou Siwei or as compensation for loss of office.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

12. Property, plant and equipment

	Buildings <i>RMB'000</i>	Plant and Machinery <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost						
At 1 January 2007	10,511	24,440	1,294	3,422	6,229	45,896
Additions	6,503	8,798	2,075	3,049	29,564	49,989
Transfer	14,181	15,416	–	–	(29,597)	–
Disposals	–	–	–	(3,476)	–	(3,476)
At 31 December 2007	31,195	48,654	3,369	2,995	6,196	92,409
Additions	1,552	11,632	762	2,644	38,529	55,119
Transfer	6,785	4,917	–	–	(11,702)	–
Disposals	(6)	(1,219)	(4)	(899)	–	(2,128)
At 31 December 2008	39,526	63,984	4,127	4,740	33,023	145,400
Additions	7,902	20,117	1,497	2,732	14,566	46,814
Transfer	42,812	2,317	–	–	(45,129)	–
Disposals	(19,201)	(454)	(15)	(124)	–	(19,794)
At 31 December 2009	71,039	85,964	5,609	7,348	2,460	172,420
Accumulated depreciation						
At 1 January 2007	1,664	5,406	468	641	–	8,179
Charge for the year	1,135	3,486	382	390	–	5,393
Disposals	–	–	–	(663)	–	(663)
At 31 December 2007	2,799	8,892	850	368	–	12,909
Charge for the year	2,107	5,613	676	425	–	8,821
Disposals	(3)	(688)	(2)	(233)	–	(926)
At 31 December 2008	4,903	13,817	1,524	560	–	20,804
Charge for the year	4,320	7,328	854	945	–	13,447
Disposals	(2,917)	(16)	(6)	(35)	–	(2,974)
At 31 December 2009	6,306	21,129	2,372	1,470	–	31,277
Carrying amount						
At 31 December 2009	<u>64,733</u>	<u>64,835</u>	<u>3,237</u>	<u>5,878</u>	<u>2,460</u>	<u>141,143</u>
At 31 December 2008	<u>34,623</u>	<u>50,167</u>	<u>2,603</u>	<u>4,180</u>	<u>33,023</u>	<u>124,596</u>
At 31 December 2007	<u>28,396</u>	<u>39,762</u>	<u>2,519</u>	<u>2,627</u>	<u>6,196</u>	<u>79,500</u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

At 31 December 2007, 2008 and 2009, the carrying amount of property, plant and equipment pledged as security for Zhengzhou Siwei's bank borrowings amounted to approximately RMB17,631,000, RMB43,941,000 and RMB74,864,000 respectively.

At 31 December 2007 and 2008, Zhengzhou Siwei's buildings included certain buildings with carrying amounts of approximately RMB10,175,000 and RMB16,197,000 respectively for which Zhengzhou Siwei did not have the relevant building ownership certificates. These buildings were disposed of during the year ended 31 December 2009.

At 31 December 2009, Zhengzhou Siwei's buildings included four buildings with carrying amount of approximately RMB11,676,000 erected on lands which Zhengzhou Siwei did not have the relevant land use rights (*note 18*). Accordingly, Zhengzhou Siwei has not obtained the relevant construction permits and building ownership certificates for these buildings. However, Zhengzhou Siwei obtained the following certificates in relation to the construction of and right to use these buildings:

- (a) Pursuant to the certificate of confirmation (《證明》) issued by Planning Administration Bureau of Xingyang (滎陽市規劃管理局) dated 21 October 2009, the construction plan of Zhengzhou Siwei in Guangwu Town, Xingyang City (滎陽市廣武鎮) complies with the overall development programme of Guangwu Town, Xingyang City (滎陽市廣武鎮). Zhengzhou Siwei is in the process of obtaining the relevant construction plan permit.
- (b) Pursuant to the certificate of confirmation (《證明》) issued by Construction Administration Bureau of Xingyang (滎陽市建設管理局) dated 18 October 2009, Construction Administration Bureau of Xingyang (滎陽市建設管理局) allowed Zhengzhou Siwei to continue the construction process and at the same time applying the relevant construction permit.
- (c) Pursuant to the certificate of confirmation (《關於鄭州四維機電設備製造有限公司相關房屋使用情況的確認函》) issued by Real Estate Administration Bureau of Xingyang (滎陽市房地產管理局) dated 18 October 2009, despite the fact that Zhengzhou Siwei constructed certain buildings which did not have building ownership certificates, Real Estate Administration Bureau of Xingyang (滎陽市房地產管理局) agreed that Zhengzhou Siwei can continue to use the buildings before applying for the building ownership certificates.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

According to a legal opinion issued by Commerce & Finance Law Offices (the “PRC Lawyer” or “北京市通商律師事務所”), based on the above certificates of confirmation, despite Zhengzhou Siwei failed to apply for the relevant permits on construction of the buildings in accordance with the PRC laws and regulations, the probability of penalty imposed by Planning Administration Bureau of Xinyang (滎陽市規劃管理局), Construction Administration Bureau of Xinyang (滎陽市建設管理局) and Real Estate Administration Bureau of Xinyang (滎陽市房地產管理局) is low.

Zhengzhou Siwei will apply for the building ownership certificates of these buildings after obtaining the relevant land use rights. Based on the legal opinion and the fact that these buildings have been used by Zhengzhou Siwei effective from 1 January 2009, the directors of Zhengzhou Siwei are of the opinion that these buildings should be treated as assets of Zhengzhou Siwei and included in the property, plant and equipment.

13. Prepaid land lease payments

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	3,072	4,856	12,531
Additions	1,872	7,781	–
Amortisation of prepaid land lease payments	(88)	(106)	(282)
At end of year	4,856	12,531	12,249
Current portion	(106)	(332)	(315)
Non-current portion	<u>4,750</u>	<u>12,199</u>	<u>11,934</u>

Zhengzhou Siwei's prepaid land lease payments represent payments for land use rights in the PRC under medium lease terms.

At 31 December 2007, 2008 and 2009, the carrying amount of certain prepaid land lease payments pledged as security for Zhengzhou Siwei's bank borrowings amounted to approximately RMB4,856,000, RMB4,750,000 and RMB12,249,000 respectively.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

14. Intangible assets

	Technical know-how (purchased) <i>RMB'000</i>	Computer Software (purchased) <i>RMB'000</i>	Total <i>RMB'000</i>
Cost			
At 1 January 2007	1,947	149	2,096
Additions	1,409	19	1,428
At 31 December 2007 and 1 January 2008	3,356	168	3,524
Additions	1,642	925	2,567
At 31 December 2008 and 1 January 2009	4,998	1,093	6,091
Additions	479	892	1,371
At 31 December 2009	5,477	1,985	7,462
Accumulated amortisation			
At 1 January 2007	510	24	534
Amortisation for the year	820	37	857
At 31 December 2007 and 1 January 2008	1,330	61	1,391
Amortisation for the year	1,246	74	1,320
At 31 December 2008 and 1 January 2009	2,576	135	2,711
Amortisation for the year	1,271	180	1,451
At 31 December 2009	3,847	315	4,162
Carrying amount			
At 31 December 2009	1,630	1,670	3,300
At 31 December 2008	2,422	958	3,380
At 31 December 2007	2,026	107	2,133

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

The average remaining amortisation period of the technical know-how as at 31 December 2007, 2008 and 2009 was 23 months, 17 months and 13 months respectively. Moreover, the average remaining amortisation period of computer software as at 31 December 2007, 2008 and 2009 was 108 months, 103 months and 101 months respectively.

Zhengzhou Siwei carried out a review of the recoverable amount of its intangible assets for the years ended 31 December 2007, 2008 and 2009, with regard to the market conditions of its products. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The directors of Zhengzhou Siwei are of the opinion that there was no impairment in the intangible assets as at 31 December 2007, 2008 and 2009.

15. Investment in a subsidiary

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investment in the PRC, at cost			
At 1 January	30,565	–	–
Disposal during the year	<u>(30,565)</u>	<u>–</u>	<u>–</u>
At 31 December	<u>–</u>	<u>–</u>	<u>–</u>

Zhengzhou Siwei acquired 100% equity interest in Jiaozuo Siwei, a domestic limited liability enterprise established in the PRC in 2006 and disposed of it in 2007. As no sufficient records has been kept for Jiaozuo Siwei, the results of this disposed subsidiary have not been consolidated into the Financial Information of Zhengzhou Siwei for the Relevant Periods.

In the opinion of Zhengzhou Siwei's directors, the preparation of consolidated financial information would involve expenses or delays out of proportion to the value to the equity holders.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

16. Investment in an associate

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Unlisted investment in the PRC, at cost			
At 1 January	3,000	–	–
Disposal during the year	<u>(3,000)</u>	<u>–</u>	<u>–</u>
At 31 December	<u>–</u>	<u>–</u>	<u>–</u>

Zhengzhou Siwei acquired 20% equity interest in Baoji Siwei in 2005 and disposed of it in 2007. As no sufficient records has been kept for Baoji Siwei, the results of the associate are not accounted for under the equity method of accounting.

17. Inventories

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	61,893	60,702	71,766
Work in progress	26,343	30,413	63,174
Finished goods	<u>8,380</u>	<u>966</u>	<u>26,697</u>
	<u>96,616</u>	<u>92,081</u>	<u>161,637</u>

As at 31 December 2008 and 2009, inventories with carrying amount of RMB33,340,000 and RMB50,468,000 respectively were pledged as security for banking facilities granted to Zhengzhou Siwei.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

18. Trade and other receivables

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables	163,393	495,249	843,990
Allowances for bad and doubtful debts	<u>(1,795)</u>	<u>(3,782)</u>	<u>(4,370)</u>
	161,598	491,467	839,620
Bills receivables	3,500	2,000	1,100
Prepayments	22,577	25,891	37,268
Deposits	1,954	4,284	12,028
Other receivables	<u>1,954</u>	<u>1,656</u>	<u>73,328</u>
	<u>191,583</u>	<u>525,298</u>	<u>963,344</u>

Zhengzhou Siwei's trading terms with customers other than that for retention receivables is mainly due on delivery. Deposits payment is normally required. The credit term for retention receivables is generally one year. Zhengzhou Siwei seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors of Zhengzhou Siwei.

An ageing analysis of trade receivables, based on the delivery date, and net of allowances, are as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
0 to 90 days	71,909	348,400	601,349
91 to 180 days	62,587	79,219	102,465
181 to 365 days	16,741	36,165	75,378
Over 1 year	<u>10,361</u>	<u>27,683</u>	<u>60,428</u>
	<u>161,598</u>	<u>491,467</u>	<u>839,620</u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

Reconciliation of allowance for trade receivables:

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	553	1,795	3,782
Allowance for the year	1,333	2,317	1,334
Reversal of allowances	(91)	(330)	(746)
	<u> </u>	<u> </u>	<u> </u>
At end of year	<u>1,795</u>	<u>3,782</u>	<u>4,370</u>

As of 31 December 2007, 2008 and 2009, trade receivables of approximately RMB116,684,000, RMB409,020,000 and RMB709,688,000 respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	53,319	298,582	549,769
91 to 180 days	43,362	54,053	73,499
181 to 365 days	9,642	28,702	49,210
Over 1 year	10,361	27,683	37,210
	<u> </u>	<u> </u>	<u> </u>
	<u>116,684</u>	<u>409,020</u>	<u>709,688</u>

The carrying amounts of Zhengzhou Siwei's trade receivables are denominated in RMB.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

Included in other receivables at 31 December 2009 are deposits for acquisition of four parcels of land in Guangwu Town, Xingyang City (滎陽市廣武鎮) of approximately RMB18,379,000, for which the directors of Zhengzhou Siwei and the existing owners of these parcels of land have not yet concluded the prices for the transfer of the legal titles. Accordingly, Zhengzhou Siwei did not have the relevant land use right certificates. During the years ended 31 December 2008 and 2009, Zhengzhou Siwei constructed four buildings on these parcels of land. Zhengzhou Siwei obtained the following certificates in relation to the land use right:

- (a) Pursuant to the certificate of confirmation 《證明》 issued by Planning Administration Bureau of Xingyang (滎陽市規劃管理局) dated 21 October 2009, the construction plan of Zhengzhou Siwei in Guangwu Town, Xingyang City (滎陽市廣武鎮) was satisfied the overall development programme of Guangwu Town, Xingyang City (滎陽市廣武鎮), Zhengzhou Siwei is in the process of obtaining the relevant construction plan permit.
- (b) Pursuant to the certificate of confirmation 《證明》 issued by Land Resources Bureau of Xingyang (滎陽市國土資源局) dated 5 January 2010 Zhengzhou Siwei has not yet obtained the land use right certificates. The procedures in relation to change the usage of land are in progress and Zhengzhou Siwei is allowed to construct and use properties for production and operation on these parcels of land before obtaining the relevant land use right certificates without any penalty.

According to a legal opinion issued by the PRC Lawyer, based on the above certificates of confirmation, despite the fact that Zhengzhou Siwei's buildings were erected on the land before obtaining the relevant land use right certificates, the probability of penalty imposed by Planning Administration Bureau of Xingyang (滎陽市規劃管理局) and Land Resources Bureau of Xingyang (滎陽市國土資源局) is low.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**19. Amounts due from/(to) an equity holder/a director/related companies**

The amounts due are unsecured, interest-free and have no fixed repayment terms except for the loans from a related company of approximately RMB7,132,000 and RMB29,912,000 as at 31 December 2007 and 2008 respectively which are unsecured, bearing interest at 7% per annum and have no fixed repayment terms; and a loan from an equity holder which amounted to US\$7,200,000 (equivalent to RMB49,365,000) as at 31 December 2008 and US\$3,700,000 (equivalent to RMB25,368,000) as at 31 December 2009 which was unsecured, interest free and repayable on 12 March 2009 but was subsequently extended to 31 March 2010 pursuant to an agreement dated 25 April 2009 and was further extended to 31 March 2011 pursuant to an agreement dated 5 March 2010 entered into between the equity holder and Zhengzhou Siwei.

20. Pledged bank deposits and bank and cash balances

Zhengzhou Siwei's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to Zhengzhou Siwei as set out in notes 21 and 22 to the Financial Information. The deposits are in RMB and at fixed interest rate of 1.98% per annum as at 31 December 2008 and 2009 and therefore are subject to fair value interest rate risk.

At the end of each year, all the bank and cash balances of Zhengzhou Siwei are denominated in RMB. Conversion of RMB into foreign currencies are subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

21. Trade and other payables

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	194,026	392,430	679,417
Bills payables	–	40,000	88,846
Accruals and other payables	466	19,698	19,567
Advance receipts from customers	49,968	104,976	80,492
VAT and other tax	8,113	22,676	58,544
Accrued staff salaries and welfares	2,678	4,559	7,434
	255,251	584,339	934,300
	255,251	584,339	934,300

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

An ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	119,894	243,453	366,155
91 to 180 days	40,031	106,347	112,370
181 to 365 days	12,369	28,220	80,376
Over 1 year	21,732	14,410	120,516
	<u>194,026</u>	<u>392,430</u>	<u>679,417</u>

Bills payables have an average maturity period of 180 days, interest-free and are secured by charges over Zhengzhou Siwei's bank deposits, inventories and guarantees given by its director and third parties.

The carrying amounts of Zhengzhou Siwei's trade payables are denominated in RMB.

22. Bank borrowings

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short term bank loans, secured	<u>29,000</u>	<u>29,000</u>	<u>127,500</u>

The short term bank loans are repayable on demand or within one year.

The short term bank loans are secured by charges over Zhengzhou Siwei's property, plant and equipment, prepaid land lease payments and guarantees given by its director, a related company and third parties.

The carrying amounts of Zhengzhou Siwei's borrowings are denominated in RMB.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

The average interest rates were as follows:

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short term bank loans	<u>5.5% – 7.5%</u>	<u>7.0% – 10.5%</u>	<u>4.9% – 7.4%</u>

As at 31 December 2007, 2008 and 2009, short term loans of RMB29,000,000, RMB10,000,000 and RMB127,500,000 respectively are arranged at fixed interest rates and expose Zhengzhou Siwei to fair value interest rate risk. Other bank borrowings are arranged at floating rates, thus exposing Zhengzhou Siwei to cash flow interest rate risk.

23. Warranty provisions

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	820	1,650	1,650
Addition provisions	1,650	1,650	1,650
Provision used	(282)	(2,529)	(2,112)
Underprovision in prior year	–	879	462
Unused provisions reversed	<u>(538)</u>	<u>–</u>	<u>–</u>
At end of year	<u>1,650</u>	<u>1,650</u>	<u>1,650</u>

The warranty provision represents Zhengzhou Siwei's best estimate of Zhengzhou Siwei's liability under 12 months warranties granted on mining machinery based on prior experience and industry averages for defective products.

24. Deferred tax

No provision for deferred taxation has been made in the Financial Information as the tax effect of temporary differences for the Relevant Periods is immaterial to Zhengzhou Siwei.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

25. Paid-up capital

	At 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Registered capital	<u>80,937</u>	<u>80,937</u>	<u>104,837</u>
Fully paid up capital	<u>59,925</u>	<u>59,925</u>	<u>83,825</u>

Zhengzhou Siwei revalued certain of its property, plant and equipment and prepaid land lease payments with the revaluation gains of RMB21,012,000 credited to the capital reserve account of Zhengzhou Siwei in accordance with the Generally Accepted Accounting Principles of the PRC.

Pursuant to a resolution passed on 16 September 2004 by the equity holders of Zhengzhou Siwei, the directors of Zhengzhou Siwei were authorised to capitalise RMB34,381,000 standing to the credit of the capital reserve account of Zhengzhou Siwei, which comprised capital reserve of RMB13,369,000 and the revaluation gains of RMB21,012,000 as stated above, by applying such sum as paying up capital of RMB34,381,000 in full RMB34,381,000 in proportion by equity holders of Zhengzhou Siwei, whose names appeared on the register of member of Zhengzhou Siwei at the close of business on 16 September 2004.

Since the revaluation of land use rights and property, plant and equipment amounting to RMB21,012,000 is not in compliance with the subsequent measurement requirement of HKAS 17 "Leases" and HKAS 16 "Property, Plant and Equipment", the revaluation gains and the corresponding increase in capital as mentioned in the paragraphs above is reversed for the purpose of this Financial Information prepared in accordance with HKFRSs. Therefore the fully paid-up capital as disclosed in this Financial Information prepared in accordance with HKFRSs does not agree with the fully paid-up capital as registered by Zhengzhou Siwei.

On 26 August 2009, Zhengzhou Siwei entered into a loan capitalisation agreement within equity holder to capitalize certain amount due to an equity holder of USD3,500,000 (equivalent to RMB23,900,000) as paid-up capital of Zhengzhou Siwei.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

Zhengzhou Siwei's objectives when managing capital are to safeguard Zhengzhou Siwei's ability to continue as a going concern and to maximise the return to the equity holders through the optimisation of the debt and equity balance.

Zhengzhou Siwei currently does not have any specific policies and processes for managing capital and is not subject to any externally imposed capital requirements.

26. Reserves***Nature and purpose of reserves******(i) Capital reserve***

The capital reserve represents additional equity contribution made from an equity holder of Zhengzhou Siwei on its incorporation.

(ii) Statutory reserve

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of Zhengzhou Siwei under the applicable laws and regulations in the PRC.

27. Notes to the consolidated statements of cash flows***Major non-cash transactions***

- (a) On 14 September 2007, Zhengzhou Siwei disposed of its entire 100% equity interest in Jiaozuo Siwei to a related company at nil consideration. Mr. Wang Fu, a director of Zhengzhou Siwei, was the controlling equity holder of the related company.
- (b) On 9 October 2007, Zhengzhou Siwei disposed of its 7.5% equity interest in Baoji Siwei at consideration of RMB1,125,000, which was settled by offsetting the trade payables to Baoji Siwei.
- (c) Payments for prepaid land lease payments of RMB2,902,000 and RMB600,000 for the years ended 31 December 2007 and 2008 respectively; and purchases of property, plant and equipment of RMB4,230,000 and RMB22,180,000 for the years ended 31 December 2007 and 2008 respectively were financed by the loan from a related company.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

- (d) Included in prepayments as at 31 December 2007, 2008 and 2009 were advance payments of RMB8,905,000, RMB7,917,000 and RMB6,014,000 respectively for the acquisition of property, plant and equipment; and as at 31 December 2007, 2008 and 2009 were advance payments of RMB3,004,000, RMB3,940,000 and RMB18,379,000 respectively for the prepaid land lease.
- (e) Included in accruals and other payables as at 31 December 2008 and 2009 were amounts of RMB19,339,000 and RMB5,216,000 respectively in respect of cost of property, plant and equipment and prepaid land lease not yet paid.
- (f) Included in share capital as at 31 December 2009 was amount of RMB23,900,000 in respect of loan capitalisation of amount due to an equity holder.

28. Contingent liabilities

Save as disclosed below, as at 31 December 2007, 2008 and 2009, Zhengzhou Siwei did not have any significant contingent liabilities.

Legal titles of certain land and buildings

As set out in notes 12 and 18 to the Financial Information, Zhengzhou Siwei erected four buildings on certain parcels of land which Zhengzhou Siwei did not have relevant land use rights. Notwithstanding the local government authorities, including Planning Administration Bureau of Xinyang (滎陽市規劃管理局), Construction Administration Bureau of Xinyang (滎陽市建設管理局), Real Estate Administration Bureau of Xinyang (滎陽市房地產管理局) and Land Resources Bureau of Xinyang (滎陽市國土資源局), have issued certificates of confirmation in respect of Zhengzhou Siwei's right to use these buildings and parcels of land, Zhengzhou Siwei may subject to penalty for the breach of PRC laws and regulations. The directors of Zhengzhou Siwei do not consider a provision for liability be necessary on the grounds that there are no reliable estimate that can be made; and, according to the legal opinion issued by the PRC Lawyer, based on the above certificates of confirmation, the probability of penalty is low.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)*Financial guarantees issued*

Pursuant to a directors' meeting held on 19 February 2009, the directors of Zhengzhou Siwei resolved to approve a cross guarantee agreement from which Zhengzhou Siwei and a third party mutually agreed to issue cross guarantee to the extent of RMB60,000,000 to banks in respect of banking facilities granted to Zhengzhou Siwei and the third party. Under such cross guarantee, Zhengzhou Siwei and the third party are jointly and severally liable for all or any of each of their borrowings from the banks for one year.

Pursuant to a directors' meeting held on 16 June 2009, the directors of Zhengzhou Siwei resolved to approve a cross guarantee agreement from which Zhengzhou Siwei and a third party has mutually agreed to issue cross guarantee to the extent of RMB50,000,000 to banks in respect of banking facilities granted to Zhengzhou Siwei and the third party. Under such cross guarantee, Zhengzhou Siwei and the third party are jointly and severally liable for all or any of each of their borrowings from the banks for one year.

At 31 December 2009, the directors of Zhengzhou Siwei do not consider it probable that a claim will be made against Zhengzhou Siwei under the above guarantees. The maximum liability of Zhengzhou Siwei as at 31 December 2009 under the guarantees is the amount of bank loans drawn under the cross guarantees by the third parties at that date of RMB100,000,000.

The fair value of the cross guarantee at date of inception is not material and is not recognised in the Financial Information.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

29. Capital commitments

Zhengzhou Siwei's capital commitments at the end of the Relevant Periods are as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Property, plant and equipment			
Contracted but not provided for	27,669	791	16,887
Prepaid land lease payments			
Contracted but not provided for	–	–	–
Authorised but not contracted for	–	200,000	211,410
	<u>27,669</u>	<u>200,791</u>	<u>228,297</u>

30. Lease commitments

At 31 December 2007, 2008 and 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within one year	631	657	724
In the second to fifth years inclusive	2,788	2,899	–
After five years	1,940	1,172	–
	<u>5,359</u>	<u>4,728</u>	<u>724</u>

Operating lease payments represent rentals payable by Zhengzhou Siwei for certain parcels of land of its factories premises. The leases are negotiated for terms ranging from four to fifteen years and do not include contingent rentals.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

31. Related party transactions

The amounts due from/to a subsidiary/an associate/equity holders/directors/related companies are disclosed in notes 15, 16 and 19.

In addition to the balances disclosed above in the Financial Information, Zhengzhou Siwei had the following transactions with its related parties during the Relevant Periods.

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Agency fees paid to a related company*	4,781	17,282	18,668
Market development fees paid to a related company*	1,536	–	–
Consultancy fees received from a related company [^]	680	–	–
Commission paid for a related company*	–	–	601
Consultancy fees paid to:			
– a related company [#]	1,800	–	–
– a related company [^]	–	–	455
Sales of goods to a related company*	260	3,077	11,959
Sales of raw and scrapped materials to:			
– a subsidiary ⁺	1,056	–	–
– an associate ⁺	164	–	–
– related companies*	1,319	10	782
Raw materials purchased from:			
– a subsidiary ⁺	5,901	–	–
– an associate ⁺	21,835	–	–
– related companies*	2,911	12,702	2,200
Property, plant and equipment acquired from:			
– a subsidiary ⁺	15,128	–	–
– a related company*	–	–	276
Property, plant and equipment disposed to a related company*	–	–	280

* A director, Mr. Wang Fu, was the controlling equity holder of the related companies.

A director, Mr. Li Rubo, was the controlling equity holder of the related company.

[^] The directors, Mr. Li Rubo and Mr. Williams Emory, were the controlling equity holders of the related company.

⁺ The subsidiary and the associate were disposed during the year ended 31 December 2007.

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)**32. First-time adoption of HKFRSs**

Reconciliation of equity at 1 January 2007 (date of transition to HKFRSs):

	<i>RMB'000</i>
Equity attributable to the equity holders of Zhengzhou Siwei reported in the PRC GAAP financial statements	113,031
Reversal of capitalised revaluation surplus on property, plant and equipment, prepaid land lease payments and intangible assets	(21,073)
Adjustment on depreciation of property, plant and equipment	548
Adjustment on amortisation of prepaid land lease payments	112
Adjustment on amortisation of intangible assets	(417)
Adjustment on revenue from sales of goods	(1,738)
Write off of intangible assets	1,235
Write off of inventories	(1,449)
Allowances for trade receivables	(224)
Allowances for other receivables	(2,649)
Provision for warranty expenses	(820)
Adjustment on current tax liabilities	205
	<hr/>
Equity attributable to the equity holders of Zhengzhou Siwei reported in the HKFRS Financial Statements	<u><u>86,761</u></u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

Reconciliation of equity at 31 December 2009 (end of the latest period presented in the most recent annual financial statements under the PRC GAAP):

	<i>RMB'000</i>
Equity attributable to the equity holders of Zhengzhou Siwei reported in the PRC GAAP financial statements	299,587
Reversal of capitalised revaluation surplus on property, plant and equipment, prepaid land lease payments and intangible assets	(21,073)
Adjustment on depreciation of property, plant and equipment	(1,281)
Adjustment on amortisation of prepaid land lease payments	220
Adjustment on amortisation of intangible asset	239
Adjustment on gain on disposal of property, plant and equipment	2,742
Write off of intangible assets	(214)
Write off of inventories	(4,848)
Allowances for trade receivables	(1,819)
Allowances for other receivables	(2,149)
Provision for warranty expenses	(1,650)
Provision for agency fees	(8,396)
Accruals for staff salaries, bonus, allowances and benefits	(3,889)
Adjustment on current tax liabilities	426
Recognition of revenue from sales of goods	59,597
Recognition of intangible assets and amounts due from related parties	2,225
	<hr/>
Equity attributable to the equity holders of Zhengzhou Siwei reported in the HKFRS Financial Statements	<u><u>319,717</u></u>

B. ACCOUNTANTS' REPORT ON ZHENGZHOU SIWEI (Continued)

Reconciliation of profit for the year ended 31 December 2009:

	<i>RMB'000</i>
Profit attributable to the equity holders of Zhengzhou Siwei reported in the PRC GAAP financial statements	103,765
Adjustment on depreciation of property, plant and equipment	(1,953)
Adjustment on amortisation of intangible assets	244
Adjustment on gain on disposal of property, plant and equipment	2,572
Write off of inventories	(2,051)
Allowances for trade receivables	51
Reversal of allowances for other receivables	556
Accruals for staff salaries, bonuses, allowances and benefits	19
Recognition of intangible assets and amounts due from related parties	2,225
Recognition of revenue from sales of goods	70,114
Adjustment of revenue related to prior year	(38,710)
Adjustment on income tax expenses	(3,526)
Provision for agency fees	<u>(8,396)</u>
Profit attributable to the equity holders of Zhengzhou Siwei reported in the HKFRS Financial Statements	<u><u>124,910</u></u>

33. Subsequent financial statements

Audited financial statements have not been prepared by Zhengzhou Siwei in respect of any period subsequent to 31 December 2009.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2009 AND THREE MONTHS ENDED 31 MARCH 2010

A summary of the published results and of the assets and liabilities of the Group as extracted from the relevant annual, interim and quarterly reports of the Company is set out below:

CONSOLIDATED INCOME STATEMENT

	(Unaudited)		(Audited)		
	For the three months ended 31 March		For the year ended 31 December		
	2010	2009	2009	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	285	262	2,599	15,955	50,710
Cost of goods sold	(121)	(106)	(540)	(13,256)	(40,678)
Gross profit	164	156	2,059	2,699	10,032
Other income	15	11,238	12,071	2,140	558
Fair value (loss)/gain on derivative components of convertible bonds	(8,244)	262	(13,507)	6,845	–
Selling and distribution costs	–	–	–	(1,066)	(8,576)
Administrative expenses	(4,357)	(8,982)	(23,720)	(25,715)	(18,238)
Gain on disposal of a subsidiary	–	–	–	1,484	–
Other operating expenses	–	–	(6,473)	(12,753)	(870)
(Loss)/profit from operations	(12,422)	2,674	(29,570)	(26,366)	(17,094)
Finance costs	(352)	(317)	(1,349)	(831)	(1)
(Loss)/profit before tax	(12,774)	2,357	(30,919)	(27,197)	(17,095)
Income tax expense	–	–	(3)	–	(327)
(Loss)/profit for the period/year attributable to equityholders of the Company	<u>(12,774)</u>	<u>2,357</u>	<u>(30,922)</u>	<u>(27,197)</u>	<u>(17,422)</u>
	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>
(Loss)/earning per share					
Basic	<u>(3.191)</u>	<u>0.599</u>	<u>(7.78)</u>	<u>(7.08)</u>	<u>(5.41)</u>
Diluted	<u>N/A</u>	<u>0.529</u>	<u>N/A</u>	<u>(8.03)</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

	(Audited)		
	As at 31 December		
	2009	2008	2007
	HK\$'000	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	260	399	598
Current assets			
Inventories	–	–	2,342
Film rights	–	–	1,718
Trade and other receivables	6,100	5,705	14,815
Prepayments and deposits	19,486	28,986	22,262
Income tax recoverable	9	–	–
Pledged bank deposits	34	1,477	2,741
Bank and cash balances	5,266	6,466	13,366
	<u>30,895</u>	<u>42,634</u>	<u>57,244</u>
Current liabilities			
Trade and other payables	15,901	16,088	21,737
Derivative components of convertible bonds	14,548	1,041	–
Convertible bonds-current portion	394	–	–
Current tax liabilities	–	11	–
	<u>30,843</u>	<u>17,140</u>	<u>21,737</u>
Net current assets	<u>52</u>	<u>25,494</u>	<u>35,507</u>
Total assets less current liabilities	312	25,893	36,105
Non-current liabilities			
Convertible bonds – non-current portion	16,008	15,072	–
Net (liabilities)/assets	<u>(15,696)</u>	<u>10,821</u>	<u>36,105</u>
Capital and reserves			
Share capital	3,996	3,840	3,840
Share premium	92,871	91,066	91,066
Share option reserve	4,877	2,338	–
Exchange reserve	(514)	(419)	6
Accumulated losses	(116,926)	(86,004)	(58,807)
(CAPITAL DEFICIENCY)/ TOTAL EQUITY	<u>(15,696)</u>	<u>10,821</u>	<u>36,105</u>

Notes:

- There is no extraordinary item, exceptional item, minority interests or dividends for the three years ended 31 December 2007, 2008 and 2009, and the three-month period ended 31 March 2009 and 2010.
- Unqualified audit opinion was issued for the results of the Group for the three years ended 31 December 2007, 2008 and 2009. The auditor of the Company mentioned in its 2009 auditor's report as regards the material uncertainty relating to the going concern basis which was disclosed on p.II-3 of this circular.

2. AUDITORS' REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENT OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

- (a) Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31 December 2009. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 December 2009.

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

TO THE SHAREHOLDERS OF
ERA HOLDINGS GLOBAL LIMITED
(FORMERLY KNOWN AS ERA INFORMATION & ENTERTAINMENT LIMITED)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ERA Holdings Global Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 86, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") 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 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the 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 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 Group as at 31 December 2009 and of the Group's results 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.

Material uncertainty relating to the going concern basis

Without qualifying our opinion, we draw attention to note 2 to the financial statements which mentions that the Group incurred a loss attributable to owners of the Company of approximately HK\$30,922,000 for the year ended 31 December 2009 and as at 31 December 2009 the Group had net liabilities of approximately HK\$15,696,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon whether the Group can successfully implement measure as set out in note 2 to the financial statements in order to have sufficient working capital to finance the operations of the Group. The financial statements do not include any adjustments that would result from the failure of carrying out such measure. We consider that the material uncertainty has been adequately disclosed in the financial statements.

Certified Public Accountants
Hong Kong

23 March 2010”

(b) The following is an extract of the financial statements of the Group from the latest annual report of the Company for the year ended 31 December 2009:

“CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Turnover	7	2,599	15,955
Cost of goods sold		<u>(540)</u>	<u>(13,256)</u>
Gross profit		2,059	2,699
Other income	8	12,071	2,140
Fair value (loss)/gain on derivative components of convertible bonds	25	(13,507)	6,845
Selling and distribution costs		–	(1,066)
Administrative expenses		(23,720)	(25,715)
Gain on disposal of a subsidiary		–	1,484
Other operating expenses		<u>(6,473)</u>	<u>(12,753)</u>
Loss from operations		(29,570)	(26,366)
Finance costs	10	<u>(1,349)</u>	<u>(831)</u>
Loss before tax		(30,919)	(27,197)
Income tax expense	11	<u>(3)</u>	<u>–</u>
Loss for the year attributable to owners of the Company	12	<u><u>(30,922)</u></u>	<u><u>(27,197)</u></u>
		<i>HK Cents</i>	<i>HK Cents</i>
Loss per share	17		
Basic		<u><u>(7.78)</u></u>	<u><u>(7.08)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>(8.03)</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year attributable to owners of the Company	<u>(30,922)</u>	<u>(27,197)</u>
Other comprehensive income:		
Exchange differences on translating foreign operations	<u>(95)</u>	<u>(412)</u>
Other comprehensive income for the year, net of tax	<u>(95)</u>	<u>(412)</u>
Total comprehensive income for the year attributable to owners of the Company	<u><u>(31,017)</u></u>	<u><u>(27,609)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Note	2009 HK\$'000	2008 HK\$'000
Non-current assets			
Property, plant and equipment	18	260	399
Current assets			
Film rights	20	–	–
Trade and other receivables	21	6,100	5,705
Prepayments and deposits	22	19,486	28,986
Income tax recoverable		9	–
Pledged bank deposits	23	34	1,477
Bank and cash balances	23	5,266	6,466
		30,895	42,634
Current liabilities			
Trade and other payables	24	15,901	16,088
Derivative components of convertible bonds	25	14,548	1,041
Convertible bonds – current portion	25	394	–
Current tax liabilities		–	11
		30,843	17,140
Net current assets		52	25,494
Total assets less current liabilities		312	25,893
Non-current liabilities			
Convertible bonds – non-current portion	25	16,008	15,072
Net (liabilities)/assets		<u>(15,696)</u>	<u>10,821</u>
Capital and reserves			
Share capital	26	3,996	3,840
Share premium		92,871	91,066
Share option reserve		4,877	2,338
Exchange reserve		(514)	(419)
Accumulated losses		(116,926)	(86,004)
(CAPITAL DEFICIENCY)/ TOTAL EQUITY		<u>(15,696)</u>	<u>10,821</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	
At 1 January 2008	3,840	91,066	–	6	(58,807)	36,105
Total comprehensive income for the year	–	–	–	(412)	(27,197)	(27,609)
Recognition of share-based payments	–	–	2,338	–	–	2,338
Disposal of a subsidiary	–	–	–	(13)	–	(13)
Changes in equity for the year	–	–	2,338	(425)	(27,197)	(25,284)
At 31 December 2008	<u>3,840</u>	<u>91,066</u>	<u>2,338</u>	<u>(419)</u>	<u>(86,004)</u>	<u>10,821</u>
At 1 January 2009	3,840	91,066	2,338	(419)	(86,004)	10,821
Total comprehensive income for the year	–	–	–	(95)	(30,922)	(31,017)
Issue of shares	156	1,805	–	–	–	1,961
Recognition of share-based payments	–	–	2,539	–	–	2,539
Changes in equity for the year	156	1,805	2,539	(95)	(30,922)	(26,517)
At 31 December 2009	<u>3,996</u>	<u>92,871</u>	<u>4,877</u>	<u>(514)</u>	<u>(116,926)</u>	<u>(15,696)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(30,919)	(27,197)
Adjustments for:		
Allowance for doubtful debts		
– Trade and other receivables	4,942	1,919
– Prepayments and deposits	–	10,168
Amortisation of film rights	–	6,803
Bad debts written off	1,529	–
Depreciation	139	202
Equity-settled share-based payments	2,733	2,338
Fair value loss/(gain) on derivative components of convertible bonds	13,507	(6,845)
Film rights written off	–	1,241
Finance costs	1,349	831
Gain on disposal of a subsidiary	–	(1,484)
Gain on disposals of property, plant and equipment	–	(80)
Goodwill written off	–	85
Interest income	(837)	(96)
Inventories written off	–	1,014
Property, plant and equipment written off	–	496
Reversal of allowance for trade and other receivables	(182)	(401)
Reversal of allowance for inventories	–	(816)
Reversal of allowance for prepayments and deposits	(10,168)	–
Operating loss before working capital changes	(17,907)	(11,822)
Decrease in inventories	–	2,144
(Increase)/decrease in trade and other receivables	(6,191)	8,635
Decrease in prepayments and deposits	19,716	1,672
Decrease in trade and other payables	(337)	(5,637)
Cash used in operations	(4,719)	(5,008)
Income tax paid	(23)	(5)
Interest paid	(19)	–
Net cash used in operating activities	(4,761)	(5,013)

	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in pledged bank deposits	1,449	1,260
Interest income	837	96
Deposit paid for acquisition of an investment	–	(18,604)
Purchases of film rights	–	(6,326)
Purchases of property, plant and equipment	–	(504)
Net cash outflow arising on disposal of a subsidiary	–	(222)
Net cash inflow arising on acquisition of a subsidiary	–	1,007
Proceeds from disposal of property, plant and equipment	–	80
Net cash generated from/(used in) investing activities	<u>2,286</u>	<u>(23,213)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,275	–
Proceeds from issue of convertible bonds	–	21,727
Net cash generated from financing activities	<u>1,275</u>	<u>21,727</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,200)	(6,499)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	6,466	13,366
Effect of foreign exchange rate change	–	(401)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>5,266</u></u>	<u><u>6,466</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u><u>5,266</u></u>	<u><u>6,466</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. General information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 May 2000 under the Companies Law (Revised) of the Cayman Islands. The address of registered office and principal place of business of the Company are disclosed in the Corporate Information Section of the annual report. The Company's shares are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 32 to the financial statements.

2. Going concern basis

The Group incurred a loss attributable to owners of the Company of approximately HK\$30,922,000 for the year ended 31 December 2009 and as at 31 December 2009 the Group had net liabilities of approximately HK\$15,696,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern, the validity which depends upon the success of the fund raising activities of the Company to obtain funding to finance the working capital requirement of the Group. In the opinion of the directors, the liquidity and going concern of the Group can be maintained in the coming year, after taking into consideration of the expected outcome of the success of the fund raising plan the directors currently in discussion with the potential investors. In the opinion of the directors, in light of the measures and arrangements implemented to date, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient financial resources to satisfy its operation, future working capital and other financing requirements for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years except as stated below.

(a) Presentation of Financial Statements

HKAS 1 (Revised) “Presentation of Financial Statements” affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

(b) Operating Segments

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 “Segment Reporting” required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s “system of internal financial reporting to key management personnel” serving as the starting point for the identification of such segments. HKFRS 8 results in a redesignation of the Group’s reportable segments, but has had no impact on the reported results or financial position of the Group. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 9 to the financial statement.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. Significant accounting policies

These financial statements have been prepared in accordance with HKFRSs and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivatives which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the subsidiary and also any related exchange reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Business combination and goodwill*

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in consolidated profit or loss.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) *Foreign currency translation*

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each financial position presented are translated at the closing rate at the date of that statement of financial position;

- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit or loss as part of the gain or loss on disposal.

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

(d) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful life is four years.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit or loss.

(e) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(f) Film rights

Film rights represent license fees prepaid and/or payable by instalments under license agreements for the reproduction and distribution of video products, films in theatre and television, and sub-licensing of film titles in specified geographical areas and time periods.

Film rights are stated at cost less accumulated amortisation and impairment losses, if any.

The portion of film rights expected to be recouped within 12 months of the end of the reporting period date is reported as a current asset. The portion of film rights expected to be recouped in more than 12 months from the end of the reporting is reported as a non-current asset.

The costs of film rights are amortised on a systematic basis over the underlying license periods with reference to projected revenue, ranging from 1 year to 12 years, according to the following:

- video products: upon sales of video products;
- theatrical release: when films are released in theatre;
- television release: when film materials are delivered; and
- film rights sub-licensing: when film materials are delivered.

(g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(h) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' 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 receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and shortterm highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. 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.

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Convertible bonds

Convertible bonds which entitle the holder to convert into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability components and is carried as a liability at amortised cost using the effective interest rate method until extinguished on conversion or redemption. The derivative components is measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition.

(m) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Equity instruments

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

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of home video products, is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the home video products are delivered and the title has been passed to the customers.

Theatrical income is recognised when the film is released.

Revenue from the distribution of film in television is recognised when the film materials are delivered.

Film rights sub-licensing income is recognised on the transfer of risks and rewards of ownership, which is generally in accordance with the terms of the underlying license agreements.

Revenue from the provision of accounting, management and consultancy services is recognised when the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(p) *Employee benefits*

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised 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 end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) *Share-based payments*

The Group issues equity-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments 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, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(r) 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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(s) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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 end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. 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, unused tax losses or unused tax credits 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, 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 the end of each reporting period 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 realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(t) Related parties

A party is related to the Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);

- (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); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(u) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables 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 any impairment loss. 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 or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised 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.

(v) ***Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 expenditures 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 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 is remote.

(w) ***Events after the reporting period***

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. Critical Judgements and key estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Going concern basis

The Group adopted the going concern assumption in the preparation of the financial statements. Details of the assumptions adopted by the directors for adopting the going concern basis in preparing the financial statements are set out in note 2 to the financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Key sources of estimation uncertainty

(a) Allowance for doubtful debts of receivables

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables and prepayments and deposits, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables, prepayments and deposits and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Share-based payment expenses

The fair value of the share options granted to the directors, employees and consultants determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In assessing the fair value of the share options, the Binomial option pricing model (the "Binomial Model") was used. The Binomial Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Binomial Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

(c) *Fair value of derivative components*

As disclosed in note 25 to the financial statements, determination of the fair values of the derivative components of the convertible bonds at the date of issue and the end of the reporting period date involves the use of Binomial Model. Application of Binomial Model requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative components, the expected volatility of the share prices of the Company and the potential dilution in the share prices of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative components of the convertible bonds in the period in which such determination is made.

(d) *Impairment loss of film rights*

The Group's management evaluates whether film rights have suffered any impairment loss whenever events or changes in circumstances indicate that the carrying amount of the film rights may not be recoverable. The recoverable amounts of film rights have been determined based on value in use calculations and in accordance with the relevant accounting policy set out above. The value in use calculations require the Group to estimate the cash flows expected to arise from the film rights.

6. **Financial risk management**

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the principal operating entities of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Price risk

The Group's derivative components of convertible bonds are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to price risk.

At 31 December 2009, if the share prices of the Company increase/decrease by 20% with all other variables held constant and the fair value of the derivative components of convertible bonds moved according to the historical correlation with the share price of the Company, the consolidated loss after tax for the year would have been HK\$3,572,000 or HK\$3,362,000 (2008: HK\$448,000 or HK\$389,000) higher or lower respectively, arising from losses or gains in fair value of the derivative components of convertible bonds.

Credit risk

The carrying amount of the bank and cash balances, trade and other receivables, and prepayments and deposits included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentration of credit risk on the trade and other receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The Group has significant concentration of credit risk on prepayments and deposits, with exposure spread over a few number of counterparties. If the relationship with these parties is terminated, it could materially and adversely affect the Group's result.

The credit risk on bank deposits and bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year <i>HK\$'000</i>	Between 1 and 2 years <i>HK\$'000</i>	Between 2 and 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>
At 31 December 2009				
Trade and other payables	15,909	–	–	–
Convertible bonds	621	217	21,862	–
At 31 December 2008				
Trade and other payables	16,106	–	–	–
Convertible bonds	229	629	22,378	–

Interest rate risk

The Group's exposure to interest rate risk arises from its bank balances and convertible bonds. The interest rates of the convertible bonds are fixed as disclosed in note 25 and expose the Group to fair value interest rate risks. The bank balances bear interests at variable rates varied with the then prevailing market condition and therefore are subject to cash flow interest rate risks. The exposure of the interest rate risks of the bank balances is insignificant given the existing low bank interest deposit rate.

Categories of financial instruments at 31 December 2009

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Financial assets:		
Loans and receivables (including cash and cash equivalents)	<u>12,050</u>	<u>14,768</u>
Financial liabilities:		
Financial liabilities at fair value		
Derivative components of convertible bonds	<u>14,548</u>	<u>1,041</u>
Financial liabilities at amortised cost	<u>32,303</u>	<u>31,160</u>

Fair values

Except as disclosed in note 25 to the financial statements, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 December 2009

Description	Fair value measurement using:			Total 2009 <i>HK\$'000</i>
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	
Convertible bonds				
– Derivative components	<u>–</u>	<u>14,548</u>	<u>–</u>	<u>14,548</u>

Description	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Convertible bonds				
– Derivative components	–	1,041	–	1,041

7. Turnover

The Group is principally engaged in theatrical release arrangement and film rights sub-licensing, and consultancy services. It also engaged in home video products distribution in the previous years. An analysis of the Group's turnover is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Home video products distribution	–	15,691
Theatrical release arrangement and film rights sub-licensing	1,395	264
Consultancy services income	1,204	–
	<u>2,599</u>	<u>15,955</u>

8. Other income

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Accountancy fee income	90	236
Bad debts recovered	182	–
Bank interest income	13	96
Consultancy services income	–	882
Distribution income	–	9
Management fee income	–	150
Other interest income	824	–
Rental income	420	402
Reversal of allowance for prepayments and deposits	10,168	–
Sundry income	374	365
	<u>12,071</u>	<u>2,140</u>

9. Segment information

In prior years, segment information reported externally was analysed on the basis of the types of goods/services supplied by the Group's operating divisions (i.e. home video products distribution, theatrical release arrangement and film rights sub-licensing). However, information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance focuses more specifically on the category of nature for each type of goods/services. The principal categories of nature for these goods/services are video related products and consultancy services. The Group's reportable segments under HKFRS 8 are therefore as follows:

Video related products	–	Sale of home video products, arrange distribution of motion pictures and sub-licensing film rights
Consultancy services	–	Provision of corporate secretarial consultancy services

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include dividend income, and gains or losses from fair value change in derivative components of convertible bonds. Segment assets do not include amounts due from related parties, investments and derivative. Segment liabilities do not include tax liabilities, corporate borrowings, convertible loans and its derivative components.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about reportable segment profit or loss, assets and liabilities:

	Video related products	Consultancy services	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2009			
Revenue from external customers	1,395	1,204	2,599
Segment (loss)/profit	(2,312)	13	(2,299)
Interest revenue	12	–	12
Interest expense	13	–	13
Depreciation and amortisation	139	–	139
Income tax expense	–	3	3
Other material non-cash items:			
Allowance on trade receivables	29	489	518
Allowance on other receivables	121	–	121
Written off of trade receivables	1,496	–	1,496
Written off of prepayments and deposits	33	–	33
As at 31 December 2009			
Segment assets	3,020	1,976	4,996
Segment liabilities	<u>6,233</u>	<u>1,661</u>	<u>7,894</u>
	Video related products	Consultancy services	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2008			
Revenue from external customers	15,955	882	16,837
Segment loss	(7,875)	(14)	(7,889)
Interest revenue	76	1	77
Interest expense	–	12	12
Depreciation and amortisation	202	–	202
Other material non-cash items:			
Allowance on trade receivables	1,614	–	1,614
As at 31 December 2008			
Segment assets	11,066	2,322	13,388
Segment liabilities	<u>8,288</u>	<u>2,021</u>	<u>10,309</u>

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Revenue		
Total revenue of reportable segments and consolidated revenue	<u>2,599</u>	<u>16,837</u>
Profit or loss		
Total profit or loss of reportable segments	(2,299)	(7,889)
Other profit or loss	(20,980)	(17,469)
(Loss)/gain on fair value on derivative components of convertible bonds	(13,507)	6,845
Reversal of impairment loss on prepayments and deposits	10,168	–
Impairment loss on other receivables	(4,304)	(10,168)
Gain on disposal of subsidiary	–	1,484
Consolidated loss for the year	<u>(30,922)</u>	<u>(27,197)</u>
Assets		
Total assets of reportable segments	4,996	13,388
Other assets	<u>26,159</u>	<u>29,645</u>
Consolidated total assets	<u>31,155</u>	<u>43,033</u>
Liabilities		
Total liabilities of reportable segments	7,894	10,309
Other liabilities	8,007	5,791
Convertible bonds	<u>30,950</u>	<u>16,112</u>
Consolidated total liabilities	<u>46,851</u>	<u>32,212</u>

Geographical information

The majority revenue generated by the Group for the two years ended 31 December 2009 and 2008 were attributable to customers based in Hong Kong. In addition, majority of the Group's non-current assets are located in Hong Kong. Accordingly, no geographical analysis is presented.

Revenue from major customers:

Revenue generated from one single customer of the Group's video related products segment during the year represents approximately HK\$1,395,000 (2008: HK\$6,865,000) of the Group's total revenue.

10. Finance costs

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest on convertible bonds wholly repayable within five years	1,330	831
Interest on other loans not wholly repayable within five years	14	–
Interest on bank overdrafts	5	–
	<u>1,349</u>	<u>831</u>

11. Income tax expense

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	<u>3</u>	<u>–</u>

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the year ended 31 December 2009. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2008 as the Group did not generate any assessable profit during that year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof. No provision for overseas tax was required as there was no assessable profit for both years.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Loss before tax	<u>(30,919)</u>	<u>(27,197)</u>
Tax at the domestic income tax rate of 16.5%	(5,102)	(4,488)
Tax effect of expenses that are not deductible	4,593	5,686
Tax effect of income that is not taxable	(1,703)	(1,143)
Tax effect of temporary differences		
not recognised	5	(178)
Tax effect of utilisation of tax losses		
not recognised previously	(28)	(701)
Tax effect of tax losses not recognised	<u>2,238</u>	<u>824</u>
Income tax expense	<u><u>3</u></u>	<u><u>-</u></u>

12. Loss for the year attributable to owners of the Company

The Group's loss for the year attributable to owners of the Company is stated after charging/(crediting):

	2009 HK\$'000	2008 HK\$'000
Allowance for doubtful debts		
– Trade and other receivables	4,942	1,919
– Prepayments and deposits	–	10,168
Amortisation of film rights (included in cost of goods sold)	–	6,803
Auditor's remuneration		
– Current year	537	526
– Under/(over)-provision in prior years	59	(21)
	596	505
Bad debts written off	1,529	–
Cost of inventories sold (note)	–	13,256
Depreciation	139	202
Director's emoluments (note 13)		
– As directors	258	249
– For management	1,541	881
	1,799	1,130
Film rights written off	–	1,241
Gain on disposal of a subsidiary	–	(1,484)
Gain on disposal of property, plant and equipment	–	(80)
Goodwill written off	–	85
Inventories written off	–	1,014
Operating lease rentals in respect of land and buildings	951	1,481
Other equity-settled share-based payments	1,900	1,571
Property, plant and equipment written off	–	496
Staff costs including directors' emoluments		
– Salaries and other costs	5,711	8,504
– Equity-settled share-based payments	833	767
– Retirement benefit scheme contributions	103	174
	6,647	9,445
Reversal of allowance for doubtful debts		
– Trade and other receivables	(182)	(401)
– Prepayments and deposits	(10,168)	–
Reversal of allowance for inventories (included in cost of goods sold)	–	(816)
	<u> </u>	<u> </u>

Note:

For the year ended 31 December 2008, cost of inventories sold includes inventories written off of approximately HK\$1,014,000 and reversal of allowance for inventories of approximately HK\$816,000 which included in the amounts disclosed separately.

13. Directors' emoluments

The emoluments of each director were as follows:

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Share-based payments <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	2009 Total <i>HK\$'000</i>
Executive directors					
Lee Jong Dae	–	1,170	251	–	1,421
Kim Beom Soo	–	–	60	–	60
Lee Sung Min	–	–	60	–	60
Independent non-executive directors					
Chan Sze Hon (<i>note ii</i>)	120	–	18	–	138
Boulangier David Marc	–	–	60	–	60
Parker Christopher John	–	–	60	–	60
Total for 2009	<u>120</u>	<u>1,170</u>	<u>509</u>	<u>–</u>	<u>1,799</u>

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Share-based payments <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	2008 Total <i>HK\$'000</i>
Executive directors					
Lee Jong Dae	–	540	231	–	771
Kim Beom Soo	–	–	55	–	55
Lee Sung Min	–	–	55	–	55
Independent non-executive directors					
Chan Sze Hon (<i>note ii</i>)	102	–	18	–	120
Boulangier David Marc	–	–	55	–	55
Parker Christopher John	–	–	55	–	55
Wong Man Hin, Raymond (<i>note i</i>)	19	–	–	–	19
Total for 2008	<u>121</u>	<u>540</u>	<u>469</u>	<u>–</u>	<u>1,130</u>

Notes:

- (i) Resigned on 25 February 2008.
- (ii) Appointed on 25 February 2008.

There was no arrangement under which a Director waived or agreed to waive any emoluments during the year. In addition, 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.

14. Employee emoluments

The five highest paid individuals in the Group during the year included one (2008: one) director whose emoluments are disclosed in note 13 to the consolidated financial statements. The emoluments of the remaining four (2008: four) individuals are set out below:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	2,616	3,415
Discretionary bonuses	60	–
Share-based payments	165	152
Retirement benefit scheme contributions	43	42
	<u>2,884</u>	<u>3,609</u>

The emoluments of the remaining four (2008: four) individuals with the highest emoluments are within the following bands:

	Number of employees	
	2009	2008
Nil to HK\$1,000,000	3	3
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>4</u>	<u>4</u>

During the year, no emoluments were paid by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

For the year ended 31 December 2008, emoluments of HK\$228,000 were paid by the Group to one individual with highest emoluments as compensation for loss of office.

15. Retirement benefit schemes

The Group operates a Mandatory Provident Fund scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with employees when contributed into the MPF Scheme.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the Republic of South Korea based on the applicable basis and rates with the relevant government regulations.

The only obligation of the Group with respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

16. Dividends

No dividends have been paid or declared by the Company during the year (2008: Nil).

17. Loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK\$30,922,000 (2008: HK\$27,197,000) and the weighted average number of ordinary shares of 397,667,883 (2008: 384,000,000) in issue during the year.

No diluted loss per share figures are presented for the year ended 31 December 2009 as the effects of all potential ordinary shares are anti-dilutive for this year. The calculation of diluted loss per share attributable to owners of the Company for the year ended 31 December 2008 was based on the adjusted loss for that year attributable to owners of the Company of approximately HK\$33,211,000 and the adjusted weighted average number of ordinary share outstanding of 413,538,240 to assume the conversion of convertible bonds. The convertible bonds was assumed to be converted into ordinary shares, and the loss for that year attributable to owners of the Company was adjusted to eliminate the interest expenses and fair value gain on the derivatives.

2008

HK\$'000

Loss attributable to owners of the Company

Loss attributable to owners of the Company for the purpose of calculating basic loss per share	27,197
Finance costs saving on conversion of outstanding convertible bonds	(831)
Fair value gain on derivative components of convertible bonds	<u>6,845</u>
Loss for the purpose of calculating diluted loss per share	<u><u>33,211</u></u>

2008

'000

Number of shares

Weighted average number of ordinary shares in issue	384,000
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	<u>29,538</u>
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	<u><u>413,538</u></u>
Diluted loss per share (Hong Kong Cents per share)	<u><u>8.03</u></u>

18. Property, plant and equipment

	Leasehold improvements <i>HK\$'000</i>	Computers <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
At 1 January 2008	3,992	3,686	2,888	644	11,210
Additions	186	-	-	318	504
Written off/disposals	(4,178)	(3,447)	(2,876)	(644)	(11,145)
Disposal of a subsidiary	-	-	(12)	-	(12)
At 31 December 2008 and 2009	-	239	-	318	557
Accumulated depreciation					
At 1 January 2008	3,811	3,225	2,757	644	10,437
Charge for the year	33	68	68	33	202
Written off/disposals	(3,844)	(3,168)	(2,818)	(644)	(10,474)
Disposal of a subsidiary	-	-	(7)	-	(7)
At 31 December 2008	-	125	-	33	158
Charge for the year	-	59	-	80	139
At 31 December 2009	-	184	-	113	297
Carrying amount					
At 31 December 2009	-	55	-	205	260
At 31 December 2008	-	114	-	285	399

19. Deferred tax

The principal components of the Group's deferred tax asset position not recognised in the financial statements are as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Accelerated depreciation allowances	(81)	(55)
Tax losses	<u>18,343</u>	<u>11,434</u>
	<u><u>18,262</u></u>	<u><u>11,379</u></u>

At the end of the reporting period, the Group has unused tax losses of HK\$111,170,000 (2008: HK\$69,297,000) available for off set against future profits. No deferred tax assets have been recognised due to the unpredictability of future profit streams. Certain tax losses have not been agreed by the tax authority.

The analysis of the expiry date of unrecognised tax losses of the Group is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Tax losses will expire in:		
2013	1,435	1,435
2019	<u>1,262</u>	<u>–</u>
	2,697	1,435
Tax losses with no expiry date	<u>108,473</u>	<u>67,862</u>
	<u><u>111,170</u></u>	<u><u>69,297</u></u>

20. Film rights*HK\$'000***Cost**

At 1 January 2008	61,636
Additions	6,326
Written off/disposals	<u>(25,252)</u>
At 31 December 2008 and 2009	<u>42,710</u>

Accumulated amortisation

At 1 January 2008	56,627
Charge for the year	6,803
Written off	<u>(23,261)</u>
At 31 December 2008 and 2009	<u>40,169</u>

Impairment losses

At 31 December 2007 and 1 January 2008	3,291
Written off	<u>(750)</u>
At 31 December 2008 and 2009	<u>2,541</u>

Carrying amount

At 31 December 2008 and 2009	<u><u>–</u></u>
------------------------------	-----------------

At 31 December 2008, because of the termination and expiry of licenses agreements signed with film right licensors during that year, the carrying amount of film rights amounted to HK\$1,241,000 have been fully written off and included in cost of inventories sold.

21. Trade and other receivables

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade receivables, net	<i>(a)</i>	2,286	3,832
Other receivables, net	<i>(b)</i>	<u>3,814</u>	<u>1,873</u>
		<u><u>6,100</u></u>	<u><u>5,705</u></u>

- (a) General credit terms of the Group range from 0 days to 90 days. An ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current – 30 days	2	12
31 – 60 days	164	82
61 – 90 days	34	191
91 – 180 days	–	2,715
181 – 365 days	–	832
Over 1 year	<u>2,086</u>	<u>–</u>
	<u><u>2,286</u></u>	<u><u>3,832</u></u>

As at 31 December 2009, trade receivables of approximately HK\$2,286,000 (2008: HK\$3,611,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Up to 3 months	200	2,842
3 to 6 months	–	446
Over 6 months	<u>2,086</u>	<u>323</u>
	<u><u>2,286</u></u>	<u><u>3,611</u></u>

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Hong Kong dollars	2,086	3,704
US dollars	<u>200</u>	<u>128</u>
Total	<u><u>2,286</u></u>	<u><u>3,832</u></u>

- (b) (i) As at 31 December 2009 included in other receivables was loan receivables amounting to HK\$2,500,000 (2008: Nil) which has been arrived at after deducting impairment losses of HK\$4,304,000 and included in other operating expenses. The amount due is interest bearing at 6% per annum.
- (ii) As at 31 December 2009 included in other receivables was amount due from Toplux International Limited, a related company in respect of key management personnel of the Group, of HK\$775,250 (2008: HK\$775,250). The amount due was unsecured, interest free and repayable on demand. The maximum amount due during the year was HK\$775,250. Detailed relationship has been disclosed in note 31(b).
- (iii) As at 31 December 2008 included in other receivables was amount due from Era International (HK) Limited, a related company in respect of key management personnel of the Group, of HK\$161,000. As at 30 June 2009, the outstanding amount of HK\$121,000 has been fully impaired and included in other operating expenses. The amount due was unsecured, interest free and repayable on demand. The maximum amount due during the year was HK\$221,000. Detailed relationship has been disclosed in note 31(a)(ii).
- (iv) As at 31 December 2009, total allowance was made for estimated irrecoverable other receivables of approximately HK\$4,425,000 (2008: HK\$Nil) and included in other operating expenses. Details refer to note 21(b)(i) and 21(b)(iii).

22. Prepayments and deposits

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Prepayments and deposits	<u>24,628</u>	<u>44,296</u>
Allowance for doubtful debts		
At 1 January	15,310	5,142
Charge for the year	–	10,168
Recoverable amount written back	<u>(10,168)</u>	<u>–</u>
At 31 December	<u>5,142</u>	<u>15,310</u>
Prepayments and deposits, net	<u><u>19,486</u></u>	<u><u>28,986</u></u>

- (a) Included in prepayments and deposits was deposit of approximately HK\$18,605,000 (originally denominated in USD of USD2,383,600) paid for a possible acquisition. On 7 July 2008, the Group entered into a memorandum of understanding (“MOU1”) with Sakhalin Resources Ltd. in relation to possible acquisition of 100% equity interest in G.F.T. (FAREAST) Holdings Limited (“G.F.T.”) which was established in Hong Kong for a cash consideration of approximately HK\$112,000,000. G.F.T. ultimately owns certain coal mining operation in Sakhalin, Russia.

On 21 August 2008, the Group entered into an amended term sheet with G.F.T. (being the wholly owned subsidiary of Sakhalin Resources Ltd. and G.F.T becomes the vendor after entering this amended term sheet) to amend certain terms of MOU1. Pursuant to the amended term sheet, the Group will acquire 100% equity interest in Adventio Investments Limited which ultimately owns certain coal mining operation on Sakhalin, Russia (the “Adventio Transaction”). The deposit should be refundable to the Group with accrued interest if the transaction cannot be completed by 31 December 2008.

On 19 March 2009, the Group entered into the extension letter to extend the completion date of the Adventio Transaction by twelve months from 31 December 2008 to 31 December 2009, or such date as may be agreed by the Company and the Vendor, and the deposit is refundable to the transaction being cancelled or expired on the closing date of 31 December 2009.

On 31 December 2009, the Group entered into the second extension letter to further extend the completion date of the Adventio Transaction by six months from 31 December 2009 to 30 June 2010, or such later date as may be agreed by the Company and the Vendor.

- (b) As at 31 December 2008, included in prepayments and deposits was deposit of approximately HK\$19.5 million paid for a possible acquisition. On 21 December 2007, the Group entered into a memorandum of understanding (“MOU2”) in relation to possible acquisition of 25% equity interest of Tusunchovan Kebar Joint Venture Company Limited which was established in Mongolia (the “Target Company”) for a cash consideration of between US\$2.5 million to US\$5 million (subject to valuation, due diligence and negotiation). On 29 April 2008, the Company and the vendor entered into an amended term sheet to amend certain terms of the MOU2. Pursuant to the amended term sheet the vendor granted an option to the Company to purchase additional 26% equity interest in the Target Company for additional consideration between US\$2.5 million to US\$5 million (subject to valuation, due diligence and negotiation). The Target Company owns concession rights to certain natural resources. In addition, pursuant to the amended term sheet, the deposit is refundable subject to the transaction being cancellable or expired on the closing date of 31 December 2008. This amount had been settled by the vendor during the year ended 31 December 2009.

23. Pledged bank deposits and bank and cash balances

The Group’s pledged bank deposits represented deposits pledged to a bank to secure banking facilities granted to the Group. The deposits are in South Korean Won and at fixed interest rate of 3.58% per annum and therefore are subject to foreign currency risk and fair value interest rate risk.

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Hong Kong dollars	4,469	4,807
US dollars	782	1,353
Other currencies	15	306
	<u>5,266</u>	<u>6,466</u>

24. Trade and other payables

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade payables	<i>(a)</i>	2,494	2,480
Film right payables	<i>(b)</i>	1,465	1,836
Other payables	<i>(c)</i>	11,942	11,772
		<u>15,901</u>	<u>16,088</u>

(a) An ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current – 30 days	–	6
31 – 60 days	28	28
61 – 90 days	8	24
91 – 180 days	36	125
181 – 365 days	56	109
Over 1 year	2,366	2,188
	<u>2,494</u>	<u>2,480</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Hong Kong dollars	2,451	2,480
US dollars	43	–
	<u>2,494</u>	<u>2,480</u>
Total	<u><u>2,494</u></u>	<u><u>2,480</u></u>

(b) An ageing analysis of film right payables is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
181 – 365 days	–	405
Over 1 year	1,465	1,431
	<u>1,465</u>	<u>1,836</u>
Total	<u><u>1,465</u></u>	<u><u>1,836</u></u>

The carrying amounts of the Group's film right payables are denominated in the following currencies:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Hong Kong dollars	1,140	1,142
US dollars	325	694
	<u>1,465</u>	<u>1,836</u>
Total	<u><u>1,465</u></u>	<u><u>1,836</u></u>

(c) As at 31 December 2009 included in other payables are short term loans of approximately HK\$107,000 which are unsecured, interest bearing at 9% per annum and repayable on 10 June 2010 and 26 August 2010.

As at 31 December 2008 included in other payable was short term loans of approximately HK\$1,326,000 which was secured by a personnel guarantee issued by a director of a wholly owned subsidiaries, interest bearing at 1.25% per annum and repayable on 31 May 2009.

25. Convertible bonds

On 1 May 2008 the Group issued convertible bonds with a nominal value of HK\$400,000 (“CB1”). At the option of the bondholders, the bondholders have the right, subject to “Conditions Precedent” stated in terms of CB1 to convert either in whole or in part (in multiples of HK\$100) the principal amount into the Company’s ordinary shares at an initial conversion price, subject to adjustment, of HK\$0.5 per share for the period commencing from the date of issue of the CB1 up to the maturity date at the discretion of the holders of the CB1, provided that any conversion shall be made in amounts of not less than a whole multiple of HK\$100 on each conversion save that if at any time the outstanding principal amount of the CB1 is less than HK\$100, the whole (but not part only) of the outstanding principal amount of the CB1 may be converted. Any CB1 not converted will be redeemed on 30 April 2010 at 100% of their face value plus accrued interest. CB1 carries interests at 3% per annum payable semi-annually in arrears on the last day of each half year.

On 14 July 2008 the Group issued convertible bonds with a nominal value of HK\$21,726,600 (“CB2”). At the option of the bondholders, the bondholders have the right, subject to “Conditions Precedent” stated in terms of CB2 to convert either in whole or in part (in multiples of HK\$100) the principal amount into the Company’s ordinary shares at an initial conversion price, subject to adjustment, of HK\$0.35 per share for the period commencing from the date of issue of the CB2 up to the maturity date at the discretion of the holders of the CB2, provided that any conversion shall be made in amounts of not less than a whole multiple of HK\$100 on each conversion save that if at any time the outstanding principal amount of the CB2 is less than HK\$100, the whole (but not part only) of the outstanding principal amount of the CB2 may be converted. Any CB2 not converted will be redeemed on 13 July 2013 at 100% of their face value plus accrued interest. CB2 carries interests at 1% per annum payable semi-annually in arrears on the last day of each half year. In the event that the prevailing price of the conversion shares is at least HK\$2 per share for 5 consecutive trading days before the maturity date, the bondholders of the CB2 shall mandatory exercise its rights to convert all of the CB2 into conversion shares. The Company may redeem all but not some of the CB2 at face value plus accrued interest at any time after the issuance of the CB2 but prior to the maturity date at its discretion by 30 business days’ notice in advance to the bondholders of the CB2, provided that each bondholders of the CB2 shall retain its conversion right prior to the completion of the redemption.

Details of CB2 are disclosed in the Company’s announcement dated 16 July 2008.

The fair values of the derivative components estimated at the issuance using an option pricing model and the change in fair value of that components is recognised in profit or loss. The residual amount is assigned as the liability components.

	CB1	CB2	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Nominal values of convertible			
loan notes issued	400	21,727	22,127
Derivate components	<u>(58)</u>	<u>(7,828)</u>	<u>(7,886)</u>
Liability components			
at date of issue	342	13,899	14,241
Interest charged	<u>26</u>	<u>805</u>	<u>831</u>
Liability components			
at 31 December 2008	368	14,704	15,072
Interest charged	<u>26</u>	<u>1,304</u>	<u>1,330</u>
Liability components			
at 31 December 2009	<u><u>394</u></u>	<u><u>16,008</u></u>	<u><u>16,402</u></u>
Derivative components			
at date of issue	58	7,828	7,886
Fair value gain for the year	<u>(57)</u>	<u>(6,788)</u>	<u>(6,845)</u>
Derivative components			
at 31 December 2008	1	1,040	1,041
Fair value loss for the year	<u>36</u>	<u>13,471</u>	<u>13,507</u>
Derivative components			
at 31 December 2009	<u><u>37</u></u>	<u><u>14,511</u></u>	<u><u>14,548</u></u>

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Analysed of liabilities components as follows:		
Current liabilities	394	–
Non-current liabilities	16,008	15,072
	<u>16,402</u>	<u>15,072</u>

The interest charged for the year for CB1 and CB2 are calculated by applying effective interest rates of 10.21% and 10.18% respectively to the liability components since the bonds were issued.

The directors estimate the fair values of the liability components of CB1 and CB2 at 31 December 2009 to be approximately HK\$390,000 (2008: HK\$363,000) and HK\$13,861,000 (2008: HK\$13,138,000) respectively. These fair values have been calculated by discounting the future cash flows at the market rate.

The fair values of the derivative components of CB1 and CB2 were revalued as at the date of issue and at the end of each reporting period based on valuations by an independent valuer, Greater China Appraisal Limited, determined using the Binomial Model. The significant inputs to the model were as follows:

	CB1		CB2			
	At 31 December 2009	At 31 December 2008	At 1 May 2008	At 31 December 2009	At 31 December 2008	At 14 July 2008
Share price of underlying shares (<i>HK\$</i>)	0.450	0.100	0.425	0.450	0.100	0.340
Exercise price (<i>HK\$</i>)	0.500	0.500	0.500	0.350	0.350	0.350
Expected volatility (%)	65.340	64.128	54.075	95.690	58.055	54.653
Expected life (<i>years</i>)	0.33	1.33	2	3.53	4.53	5
Risk-free rate (%)	0.098	0.341	1.662	1.347	1.124	3.400
Expected dividend yield (%)	–	–	–	–	–	–

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous periods equivalent to the length of the expected life.

26. Share capital

	<i>Note</i>	Number of Shares	Amount HK\$'000
<i>Authorised:</i>			
Ordinary shares of HK\$0.01 each			
At 1 January 2008,			
31 December 2008,			
1 January 2009 and			
31 December 2009		10,000,000,000	100,000
<i>Issued and fully paid:</i>			
Ordinary shares of HK\$0.01 each			
At 1 January 2008,			
31 December 2008 and			
1 January 2009		384,000,000	3,840
Issue of shares on placement	<i>(a)</i>	14,724,000	147
Equity-settled share based payments	<i>(b)</i>	<u>838,851</u>	<u>9</u>
At 31 December 2009		<u><u>399,562,581</u></u>	<u><u>3,996</u></u>

- (a) On 29 December 2008, the Company entered into the subscription agreements with three subscribers for the aggregate subscription of 14,724,000 subscription shares at an aggregate consideration of HK\$1,766,880, representing a subscription price of HK\$0.12 per subscription share. The subscription was completed on 2 February 2009 and the premium on the issue of shares, amounting to approximately HK\$1,620,000, net of share issue expenses, was credited to the Company's share premium account.
- (b) On 29 June 2009, the Company issued 388,000 ordinary shares of HK\$0.01 each at a price of HK\$0.2 per share to Somerley Limited ("Somerley"), an independent consultant, to settle of professional fees of approximately HK\$78,000. The premium on the issue of shares, amounting to approximately HK\$74,000, net of share issue expenses, was credited to the Company's share premium account.

On 1 December 2009, the Company further issued 450,581 ordinary shares of HK\$0.01 each at a price of HK\$0.258 per share to Somerley to settle the professional fees of approximately HK\$116,000. The premium on the issue of shares, amounting to approximately HK\$111,000, net of share issue expenses, was credited to the Company's share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group reviews the capital structures frequently by considering the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts, redemption of existing debts or selling assets to reduce debts.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit through the year. As at 31 December 2009, 65.96% (2008: 67.84%) of the shares were in public hands.

27. Statement of financial position of the Company

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interests in subsidiaries	(708)	4,513
Prepayments and deposits and other receivables	21,907	28,353
Bank and cash balances	3,853	1,228
Derivative component of convertible bonds	(14,548)	(1,041)
Convertible bonds	(16,402)	(15,072)
Other current liabilities	(6,025)	(5,484)
	<u>(11,923)</u>	<u>12,497</u>
NET (LIABILITIES)/ASSETS	<u>(11,923)</u>	<u>12,497</u>
Share capital	3,996	3,840
Reserves	(15,919)	8,657
	<u>(11,923)</u>	<u>12,497</u>
(CAPITAL DEFICIENCY)/TOTAL EQUITY	<u>(11,923)</u>	<u>12,497</u>

28. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008	109,628	–	(77,363)	32,265
Recognition of share-based payments	–	2,338	–	2,338
Loss for the year	<u>–</u>	<u>–</u>	<u>(25,946)</u>	<u>(25,946)</u>
At 31 December 2008 and 1 January 2009	109,628	2,338	(103,309)	8,657
Issue of shares	1,805	–	–	1,805
Recognition of share- based payments	–	2,539	–	2,539
Loss for the year	<u>–</u>	<u>–</u>	<u>(28,920)</u>	<u>(28,920)</u>
At 31 December 2009	<u><u>111,433</u></u>	<u><u>4,877</u></u>	<u><u>(132,229)</u></u>	<u><u>(15,919)</u></u>

(c) *Nature and purpose of reserves*

(i) *Share premium account*

The share premium account of the Group includes (i) the premium arising from the issue of shares; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation scheme completed in 2001, over the nominal value of the shares of the Company issued in exchange therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

(ii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(c) to the financial statements.

(iii) *Share options reserve*

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to certain directors, employees and other eligible participant of the Group as set out in note 29 to financial statements recognised in accordance with the accounting policy in note 4(q) to the financial statements.

29. Share-based payments

(a) *Share option scheme*

Pursuant to written resolutions of the shareholders of the Company dated 5 June 2001, Share Option Scheme was adopted by the Company with a purpose to recognise the contribution of certain Directors, employees, consultants and advisors of the Group to the growth of the Group and/or the listing of the Company's shares on GEM on 28 June 2001.

Under the terms of the Share Option Scheme adopted by the Company, Directors are authorised, at their discretion, to invite any Directors and employees of the Group to take up options to subscribe for shares of the Company. The subscription price will be determined by the Directors, and will be equal to the higher of (i) the nominal value of the shares; (ii) the closing price per share of the Company as stated in the daily quotation sheet of the Stock Exchange of Hong Kong Limited (the "Exchange") on the date of the grant of the option, which must be a business day; and (iii) the average of the closing price of the shares of the Company as stated in the Exchange's daily quotation sheet for the five trading days immediately preceding the date of the grant of the options.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The Company may seek approval by the Company's shareholders in general meeting for granting options beyond the 10% limit.

The total number of the shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. HK\$1 is payable as consideration for each offer of share option granted and options granted must be taken up within 28 days from date of grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing immediately after the date on which the options deemed to be granted and accepted and expiring on a date to be determined and notified by the Directors to the grantee.

The Share Option Scheme became effective for a period of 10 years commencing on the adoption on 5 June 2001. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 12 June 2001.

The following table discloses details of options outstanding and the movements during the year ended 31 December 2009 under the Share Option Scheme adopted by the Company on 5 June 2001:

Name of grantee	Date of grant	Grant	Number of shares options		
			Outstanding as at 1 January 2008	Lapsed during the year	Outstanding as at 31 December 2008
Total of directors	10 July 2008	7,700,000	–	–	7,700,000
Employees in aggregate	10 July 2008	4,900,000	–	–	4,900,000
			<u>–</u>	<u>–</u>	<u>12,600,000</u>
Advisors and consultants <i>(note 1)</i>	10 July 2008	25,800,000	–	–	25,800,000

Name of grantee	Date of grant	Grant	Number of shares options		
			Outstanding as at 1 January 2009	Lapsed during the year	Outstanding as at 31 December 2009
Total of directors	10 July 2008	7,700,000	7,700,000	–	7,700,000
Employees in aggregate	10 July 2008	4,900,000	4,900,000	–	4,900,000
			<u>12,600,000</u>	<u>–</u>	<u>12,600,000</u>
Advisors and consultants <i>(note 1)</i>	10 July 2008	25,800,000	25,800,000	–	25,800,000

note 1: Included 5,600,000 shares (2008: 5,600,000 shares) were granted to the advisors and consultants as a company.

Details of the options granted under the share option scheme are as follows:

Date of grant	Vesting period	Exercise period	Exercise price HK\$
10 July 2008	10 July 2008 – 09 July 2009	10 July 2009 – 09 July 2013	0.40

If the options remain unexercised after a period of 5 years from the date of grant, the options will be expired. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2009		2008	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	38,400,000	0.40	–	–
Granted during the year	–	–	38,400,000	0.40
Outstanding at the end of the year	<u>38,400,000</u>	<u>0.40</u>	<u>38,400,000</u>	<u>0.40</u>
Exercisable at the end of the year	<u>38,400,000</u>	<u>–</u>	<u>–</u>	<u>–</u>

The fair values of the options as at grant date is approximate to HK\$4,877,000.

These fair values were calculated using the Binomial Model. The inputs into the model were as follows:

	2008
	<i>HK\$</i>
Share price	0.39
Exercise price	0.40
Expected volatility (%)	54.84
Expected life (<i>years</i>)	5
Risk free rate (%)	3.191
Expected dividend yield (%)	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

(b) Other equity settled share-based payments

On 29 June 2009 and 1 December 2009, the Company issued 388,000 and 450,581 ordinary shares to Somerley, to settle the outstanding professional fees of approximately HK\$78,000 and HK\$116,000 respectively. At 31 December 2009, the Group has recorded these amount as expenses. The fair value of the issued shares is determined by the reference of the invoice amounts charged by Somerley, based on the market value of their services provided to the Group. Details refer to note 26(b) of the financial statements.

30. Commitments

As at 31 December 2009 the Group had the following commitments:

(a) Operating lease commitments*The Group as Lessee*

The Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Within one year	658	923
In the second to fifth years inclusive	<u>102</u>	<u>269</u>
	<u><u>760</u></u>	<u><u>1,192</u></u>

Operating lease payments represent rentals payable by the Group for its offices and motor vehicles. Leases are negotiated for a term ranging from one to three years and rentals are fixed over the lease terms and do not include contingent rentals.

The Group as Lessor

The Group's total future minimum lease payments under non-cancellable sub-leases are receivable as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Within one year	–	720
In the second to fifth years inclusive	<u>–</u>	<u>240</u>
	<u><u>–</u></u>	<u><u>960</u></u>

(b) Capital and other commitments

	2009 HK\$'000	2008 HK\$'000
PC game		
Contracted but not provided for	–	1,764
Film rights		
Contracted but not provided for	–	367
	<u>–</u>	<u>367</u>

31. Related party transactions

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

(a)	2009 HK\$'000	2008 HK\$'000
China Healthcare Holdings Limited <i>(note i)</i>		
Rental income	150	231
Era International (HK) Limited <i>(note ii)</i>		
Distribution fee income	–	8
Accountancy fee income	90	236
Management fee income	–	150
	<u>–</u>	<u>150</u>

- (i) On 24 April 2008, the Group entered into a tenancy agreement with China Healthcare Holdings Limited (“CHC”) to lease an office area to CHC for a period of two years, commencing from 24 April 2008. The rental charged to CHC was determined by reference to open market rentals at HK\$30,000 per month. Mr. Lee Jong Dae, a chairman and executive director of the Company, is also an executive director of CHC. Mr. Lee Jong Dae resigned as an executive director of CHC with effect on 25 August 2009.
- (ii) Era Films (HK) Limited (“EFHK”), a wholly owned subsidiary of the Company, received distribution fee income, management fee income and accountancy fee income from Era International (HK) Limited (“EIHK”) on the rates agreed by both parties. Mr. Leung Chung Chu, Andrew, being key management personnel of the Group, was also a director of EIHK.

The Directors have confirmed that all the related party transactions were conducted in the ordinary course of business.

- (b) During the year, IFS Asia-Pacific Limited (“IFSAP”), a wholly owned subsidiary of the Company, advanced HK\$775,000 to Toplux International Limited (“Toplux”). Mr. Francisco C. Sebastian., a key management personnel of the Group, is also a beneficial owner and director of Toplux. Detail refer to note 21(b)(ii).
- (c) The remuneration of the Group’s directors and other members of key management personnel during the year was as follows:

	2009	2008
	<i>HK\$’000</i>	<i>HK\$’000</i>
Short-term benefits	3,329	3,115
Post-employment benefits	33	34
Share-based payments	667	615
	<u>4,029</u>	<u>3,764</u>

32. Particulars of subsidiaries

Details of the subsidiaries as at 31 December 2009 are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Era Information & Entertainment (BVI) Limited	British Virgin Islands	26,200 ordinary shares of US\$0.1 each	100%	–	Investment holding
Era Home Entertainment Limited	Hong Kong	24,000,000 ordinary shares of HK\$1 each	–	100%	Inactive
Era Films (HK) Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Distribution of films in various formats and sub-licensing of film rights

Name	Place of incorporation/ registration and operation	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Era Digital Media Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100%	Inactive
Red River Agents Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Inactive
Vasky Energy Ltd.	British Virgin Islands	1 ordinary share of US\$1 each	100%	–	Investment holding
IFS Asia-Pacific Limited*	Hong Kong	100,000 ordinary shares of HK\$1 each	100%	–	Provision of corporate secretarial services
Vasky Korea Inc.	South Korea	40,000 common stocks of KRW5,000 each	100%	–	Development and distribution of computer software and provision of service for information process
ERA Global Machinery Limited	Hong Kong	1 ordinary share of HK\$1 each	–	100%	Inactive

* *Not audited by RSM Nelson Wheeler or RSM International member firms.*

33. Events after the reporting period

On 1 February 2010, the Company issued 1,144,000 ordinary shares of HK\$0.01 each at the price of HK\$0.35 per share to JDFM Investments Limited for the conversion of convertible bonds of HK\$400,400

34. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 23 March 2010.”

3. UNAUDITED FIRST QUARTERLY RESULTS

Set out below is the unaudited quarterly results of the Group for the three months ended 31 March 2010 as extracted from pages 2 to 5 of the first quarterly financial report of the Company.

“The Directors are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months ended 31 March 2010, together with the unaudited comparative figures for the corresponding period in 2009 as follows:

		For the three months ended 31 March	
		2010	2009
		(unaudited)	(unaudited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	285	262
Cost of goods sold		<u>(121)</u>	<u>(106)</u>
Gross profit		164	156
Other income		15	11,238
Fair value (loss)/gain on derivative component of convertible bonds		(8,244)	262
Administrative expenses		<u>(4,357)</u>	<u>(8,982)</u>
(Loss)/profit from operations	3	(12,422)	2,674
Finance costs		<u>(352)</u>	<u>(317)</u>
(Loss)/profit before tax		(12,774)	2,357
Income tax expense	4	<u>–</u>	<u>–</u>
(Loss)/profit for the period attributable to equity holders of the Company		<u><u>(12,774)</u></u>	<u><u>2,357</u></u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss)/earning per share	5		
– Basic		<u><u>(3.191)</u></u>	<u><u>0.599</u></u>
– Diluted		<u><u>N/A</u></u>	<u><u>0.529</u></u>

Notes:

1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with all applicable accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong.

The accounting policies adopted in preparing the unaudited consolidated results for the period under review are consistent with those followed in the Company’s 2009 annual report. The consolidated results for the three months ended 31 March 2010 are unaudited and have been reviewed by audit committee of the Company.

The Group has not applied the new standards, amendments or interpretations which have been issued but are not yet effective. The Group has already commenced an assessment of their impact but is not yet in a position to state whether they would have a material impact on its results of operations and financial positions.

2. Turnover

	For the three months ended 31 March	
	2010 (unaudited) HK\$’000	2009 (unaudited) HK\$’000
Consultancy services income	285	262

3. (Loss) / profit from operations

For the three months ended 31 March 2010, the fair value loss of approximately HK\$8,594,000 (three months ended 31 March 2009: gain of approximately HK\$262,000) on derivative component, representing the embedded options of convertible bonds, was estimated of the issuance and each balance sheet date using option pricing model and the change in fair value of that component is recognized in the income statement.

4. Income tax expense

No provision for Hong Kong and overseas profits tax has been made as the Group has no assessable profits for the three months ended 31 March 2010 (three months ended 31 March 2009: Nil).

5. (Loss)/earning per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$12,774,000 (profit for the three months ended 31 March 2009: HK\$2,357,000) and the weighted average number of ordinary shares of 400,261,692 (three months ended 31 March 2009: 393,488,800) in issue during the period.

No diluted loss per share figures are presented for the three months ended 31 March 2010 as the effect of all potential ordinary shares are anti-dilutive for the period. The calculation of diluted earning per share attributable to owners of the Company for the three months ended 31 March 2009 were based on the adjusted profit for the period attributable to owners of the Company of approximately HK\$2,412,000 and the adjusted weighted average number of ordinary share outstanding of 456,364,800 to assume the conversion of convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares, and the profit for the period attributable to equity holders of the Company is adjusted to eliminate the interest expenses and fair value gain on the derivatives.

6. Movements in reserves

Movements in reserves during the periods are as follows:

	Share premium (unaudited) <i>HK'000</i>	Exchange reserve (unaudited) <i>HK'000</i>	Share option reserve (unaudited) <i>HK'000</i>	Accumulated reserve (unaudited) <i>HK'000</i>	Total (unaudited) <i>HK'000</i>
At 1 January 2009	91,066	(419)	2,338	(86,004)	6,981
Profit for the period	-	-	-	2,357	2,357
Recognition of share- based payments	-	-	1,269	-	1,269
Issue of shares	1,620	-	-	-	1,620
At 31 March 2009	<u>92,686</u>	<u>(419)</u>	<u>3,607</u>	<u>(83,647)</u>	<u>12,227</u>

	Share premium (unaudited) <i>HK'000</i>	Exchange reserve (unaudited) <i>HK'000</i>	Share option reserve (unaudited) <i>HK'000</i>	Accumulated reserve (unaudited) <i>HK'000</i>	Total (unaudited) <i>HK'000</i>
At 1 January 2010	92,871	(514)	4,877	(116,926)	(19,692)
Loss for the period	–	(39)	–	(12,774)	(12,813)
Conversion of convertible bonds	390	–	–	–	390
At 31 March 2010	<u>93,261</u>	<u>(553)</u>	<u>4,877</u>	<u>(129,700)</u>	<u>(32,115)</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2010 (three months ended 31 March 2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended 31 March 2010, the Group recorded a turnover of approximately HK\$285,000 (three months ended 31 March 2009: approximately HK\$262,000), turnover for the period represents corporate secretarial consultancy services income.

The Group has recorded a loss of approximately HK\$12.7 million for the three months ended 31 March 2010, largely due to the fair value loss on derivative of approximately HK\$8.2 million. For the same period last year, as an one off income reversal of the allowance on deposit paid of approximately HK\$10.2 million, therefore a profit for the period had recorded accordingly.

Due to the highly competitive home video products market and the challenges from illegal internet download and piracy, the Group continues to actively consider the diversification of business into new areas of high-growth potential which will be in the best interest of the Company. The Board has been seeking opportunities in energy resources due to its long-term positive outlook. In addition, the Board is also exploring opportunities in the equipment manufacturing sector related to mining and general infrastructure.

On 9 October 2009, Vasky Energy Limited (“Vasky Energy”), a wholly owned subsidiary of the Company, and Mining Machinery Limited (the “Vendor”), a company incorporated in Mauritius, entered into the conditional sale and purchase agreement relating to the sale and purchase of 100% of the issued share capital of International Mining Machinery Siwei Holdings Limited, a company incorporated in Hong Kong with limited liability and its subsidiary (the “Target Group”) (“Acquisition”). The aggregate consideration for Acquisition payable by Vasky Energy to the Vendor shall be HK\$1,164,000,000, which shall be satisfied by procuring the Company to issue 4,000,000,000 consideration shares at an issue price of HK\$0.291 per consideration share to the Vendor at completion. The Target Group manufactures in the PRC hydraulic roof supports designed for underground coal mining. Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules. Immediately upon completion of Acquisition, the interest of the Vendor and its concert parties will exceed 30% of the enlarged issued share capital of the Company and will become a controlling shareholder of the Company. Details are set out in the Company’s announcement dated 20 November 2009.

Further on 22 January 2010, the Company made a new listing application to the Stock Exchange as Acquisition and the transactions contemplated under the sale and purchase agreement constitute a reverse takeover for the Company under Rule 19.06(6)(a) of the GEM Listing Rules, and the Company will therefore be treated as if it were a new listing applicant under Rule 19.54 of the GEM Listing Rules. Currently, Acquisition is in the process of being approved by the Hong Kong regulators and further announcement will be made as and when appropriate in accordance with the GEM Listing Rules.”

4. MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL RESULTS OF OPERATION

Set out below are a discussion and analysis of the Group's results of operation for each of the three years ended 31 December 2007, 2008 and 2009. The information set out below are principally extracted from the "Management discussion and analysis" section of the relevant annual, interim and quarterly reports of the Company to provide further information relating to the financial condition and results of operations of the Group during the periods stated.

(a) **For the year ended 31 December 2009**

Financial performance

For the year ended 31 December 2009, the Group recorded a consolidated turnover of approximately HK\$2.6 million (2008: approximately HK\$16.0 million). Consolidated loss for the year amounted to approximately HK\$30.9 million (2008: approximately HK\$27.2 million). Decrease in consolidated turnover is mainly due to the significant drop in revenue generated from home video products distribution as compared to the same period in the prior year. The increase in the consolidated loss for the year was mainly due to a loss incurred in the change of fair value on the derivative components of convertible bonds approximately HK\$13.5 million (2008: gain of approximately HK\$6.8 million) and an increasing amount of professional fees incurred in relation to the potential acquisitions of approximately HK\$6.8 million (2008: HK\$4.0 million). The increase in the consolidated loss for the year was partially setoff by reversal of allowance for doubtful debts on prepayments and deposits of approximately HK\$10.2 million (2008: Nil), and also the lesser amount of allowance for doubtful debts were required in 2009.

Business review

In the year 2009, there was still a lack of major video titles released and turnover for the year represents release of minor video title and consultancy income related to corporate secretarial services.

On 9 October 2009, Vasky Energy Limited (“Vasky Energy”), a wholly owned subsidiary of the Company, and Mining Machinery Limited (the “Vendor”), a company incorporated in Mauritius, entered into the conditional sale and purchase agreement relating to the sale and purchase of 100% of the issued share capital of International Mining Machinery Siwei Holdings Limited, a company incorporated in Hong Kong with limited liability and its subsidiary (the “Target Group”) (“Acquisition 1”). The aggregate consideration for Acquisition 1 payable by Vasky Energy to the Vendor shall be HK\$1,164,000,000, which shall be satisfied by procuring the Company to issue 4,000,000,000 consideration shares at an issue price of HK\$0.291 per consideration share to the Vendor at completion. The Target Group manufactures in the PRC hydraulic roof supports designed for underground coal mining. Acquisition 1 constitutes a very substantial acquisition for the Company under the GEM Listing Rules. Immediately upon completion of Acquisition 1, the interest of the Vendor and its concert parties will exceed 30% of the enlarged issued share capital of the Company and will become a controlling shareholder of the Company. Details are set out in the Company’s announcement dated 20 November 2009.

Further on 22 January 2010, the Company made a new listing application to the Stock Exchange as Acquisition 1 and the transactions contemplated under the sale and purchase agreement constitute a reverse takeover for the Company under Rule 19.06(6)(a) of the GEM Listing Rules, and the Company will therefore be treated as if it were a new listing applicant under Rule 19.54 of the GEM Listing Rules. Currently, Acquisition 1 is in the process of being approved by the Hong Kong regulators and further announcement will be made as and when appropriate in accordance with the GEM Listing Rules.

On 16 April 2009, Vasky Energy entered into a sale and purchase agreement (the “Agreement”) with American Investors In China, LLC (“AIC”), and G. F. Transnational, Inc. (“GFT”) (together known as the “Sellers”), in relation to the acquisition of the entire issued capital of Key Target Holdings Limited (“Key Target”), which is incorporated in Hong Kong and which will acquire a 50% equity interest in Xi’An Eastern Star Electric-Mechanical Limited Liability Company (“Eastern Star”), a sino-foreign joint venture company established in the PRC, which manufactures machinery and related moulds as well as modules for the manufacture of concrete masonry products, modular concrete products and other building materials (“Acquisition 2”). Acquisition 2 was approved, ratified and confirmed at the extraordinary general meeting held on 11 June 2009. On 31 December 2009, the Company entered into a supplemental agreement with the Sellers to extend the closing date of Acquisition 2 to on or before 30 June 2010 (or such later date as may

be agreed by the parties) as additional time is required to fulfill one of the conditions precedent as set out in the Key Target sale and purchase agreement as regards completion of transfer of 50% equity interest held by the Sellers to Key Target. The Company notes that the Sellers have not yet obtained a waiver from Xi'An Oriental Industrial Investment Limited (a limited liability company established in the PRC holding 50% equity interest in Eastern Star) on the transfer of 50% equity interest of Eastern Star from the Sellers to Key Target. Details are set out in the Company's announcement dated 31 December 2009.

On 7 July 2008, the Company entered into a memorandum of understanding ("MOU") with Sakhalin Resources Ltd. ("SR"), a company incorporated in the British Virgin Islands, in relation to the Company's possible acquisition from SR of a 100% equity interest in G.F.T. (FAREAST) Holding Limited ("GFT FAREAST"), a company incorporated in Hong Kong, for a consideration of approximately HK\$112 million (the "Consideration") (subject to additional payment based on GFT FAREAST's performance in calendar year 2011, valuation, due diligence and negotiation). Details are set out in the Company's announcement dated 7 July 2008. On 19 March 2009 the Company entered into extension letter to extend the long stop date for the closing of such possible acquisition to 31 December 2009. On 31 December 2009 the Company entered into second extension letter to extend such date to 30 June 2010 as additional time is required to complete due diligence review on GFT FAREAST, which includes but not limited to the extension of review on the latest financial results of GFT FAREAST for the year ended 31 December 2009. Details are set out in the Company's announcement dated 31 December 2009.

Prospects

The Group continues to seek opportunities in new video titles. Mindful of the highly competitive home video products market and the challenges from illegal internet download and piracy, the Group continues to actively consider the diversification of business into new areas of high-growth potential which will be in the best interest of the Company. The Board has been seeking opportunities in energy resources due to its long-term positive outlook. In addition, the Board is also exploring opportunities in the equipment manufacturing sector related to mining and general infrastructure.

Liquidity and financial resources

The Group generally financed its operations and investing activities with internally generated cashflows. As at 31 December 2009, the Group had net current assets of approximately HK\$52,000 (2008: HK\$25.5 million). The Board is confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

Foreign exchange exposure

Transactions of the Group were mainly denominated either in Hong Kong dollars, Renminbi or United States dollars. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk.

Charges on the group's assets

As at 31 December 2009, the Group's time deposits of approximately HK\$34,000 (2008: HK\$1.5 million) were pledged to a bank in respect of banking facilities granted to the Group.

Material acquisition/disposal and significant investments

It was disclosed in the circular of the Company dated 25 May 2009 that on 16 April 2009, Vasky Energy entered into the Key Target sale and purchase agreement with AIC and GFT in relation to the acquisition by Vasky Energy of the entire issued capital of Key Target which would acquire a 50% equity interest in Eastern Star. Eastern Star is principally engaged in manufacturing machinery and related moulds as well as modules for the manufacture of concrete masonry products, modular concrete products and other building materials.

The consideration for the acquisition is HK\$2.8 million and will be settled in full by way of issue of convertible bonds by the Company to AIC and GFT. The initial conversion price is HK\$0.2 per share.

On 30 September 2009, the Company announced that Vasky Energy, AIC and GFT entered into a supplemental agreement to extend the date for fulfilling the conditions precedent to the completion of the Key Target sale and purchase agreement to on or before 31 December 2009 or such later date as may be agreed by the parties to the Key Target sale and purchase agreement. On 31 December 2009, the Company further announced that such date has been extended to on or before 30 June 2010 (or such later date as may be agreed by the parties) pursuant to a supplemental agreement entered into between Vasky Energy, AIC and GFT.

Save as disclosed above, the Group did not have any material acquisition, disposal and significant investments during the year ended 31 December 2009.

Gearing ratio

The Group's total borrowings as at 31 December 2009 amounted to approximately HK\$16.4 million (2008: HK\$15.0 million), all of which were represented by convertible bonds. On this basis, the gearing ratio is calculated at -1.04 (2008: 1.39), based on an amount of shareholders' deficiency of HK\$15,696,000.

Capital commitments

As at 31 December 2009, the Group had no capital commitments.

Contingent liabilities

As at 31 December 2009, the Group had no contingent liabilities.

Employee information

As at 31 December 2009, the Group had a total of 10 employees. The total staff costs, including directors' emoluments, amounted to approximately HK\$6.6 million for the year under review. Staff remuneration is reviewed by the Group from time to time depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefits including medical benefits and contributions to staff's provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors.

The emoluments of the Directors and senior management of the Company are determined in accordance with the recommendations from the remuneration committee of the Company. The remuneration committee of the Company considers factors including salaries paid by comparable companies, time commitment and responsibilities of the relevant employee, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

(b) For the year ended 31 December 2008

Financial performance

For the year ended 31 December 2008, the Group recorded a turnover of approximately HK\$16.0 million (2007: approximately HK\$50.7 million). Loss attributable to Shareholders amounted to approximately HK\$27.1 million (2007: approximately HK\$17.4 million). Decrease in consolidated turnover is mainly due to a drop of approximately 65.3% and 95.2% in the home video products distribution and theatrical release arrangement and film rights sub-licensing, respectively, as compared to the same period in the prior year.

Business review

The Group released some new video titles including ‘Heartbreak Kids’, ‘30 Days of Night’, ‘Bee Movie’ and ‘Things We Lost in the Fire’, but the results were not as positive as we originally anticipated and there was still a lack of major video titles released in the year 2008. In addition, the theatrical release arrangement of film title released had been further dropped, as compared to prior year which resulted in significant decrease in this segment’s turnover.

Upon completion of legal and financial due diligence of Tusunchovan Kebar Joint Venture Company Limited (“Target JV Company”), a company that is 51% owned by Dean Management Limited and which owns concession and exploration rights to certain natural resources in Mongolia, the Company has decided not to exercise its right to acquire up to 51% of the Target JV Company. Details are set out in the Company’s announcements dated 21 December 2007, 29 April 2008, and 30 July 2008.

On 7 July 2008, the Company entered into a memorandum of understanding (“2008 MOU”) with Sakhalin Resources Ltd. (“SR”), a company incorporated in the British Virgin Islands, in relation to the Company’s possible acquisition from SR of a 100% equity interest in G.F.T. (FAREAST) Holding Limited, a company incorporated in Hong Kong (“GFT”), for a consideration of approximately HK\$112 million (subject to additional payment based on GFT’s performance in calendar year 2011, valuation, due diligence and negotiation). GFT ultimately owns certain coal mining operations in Sakhalin, Russia (the “Coal Mine”) and has been granted approval from The Ministry of Natural Resource in Russia to upgrade the production facilities and sell the production output. At present, the Coal Mine possesses an exploitable area of approximately 15.5 square kilometers located in Russia with one general working face in production currently. Details are set out in the Company’s announcement dated 7 July 2008.

On 21 August 2008, the Company entered into an amended term sheet to amend certain terms of the 2008 MOU in relation to the possible acquisition by the Company of GFT. In this amended term sheet GFT is the vendor, replacing SR, due to their restructuring. Pursuant to the amended term sheet, the Company paid a refundable deposit (the “Deposit”) of US\$1,888,000 to the vendor. Since 21 August 2008, the Company paid an additional refundable deposit of US\$495,600, bringing the total Deposit paid to the vendor to US\$2,383,600 as of 31 December 2008. The Deposit shall be treated as part of the consideration should the formal agreement be executed by the parties. Details of this transaction are set out in the Company’s announcement dated 21 August 2008 and 19 March 2009.

Future prospects and future plans

The Group continues to seek growth opportunities in distributing Blu-ray products and new video titles. Mindful of the highly competitive home video products market and the challenges from illegal internet download and piracy, the Group continues to actively consider the diversification of business into new areas of high-growth potential which will be in the best interest of the Company. The Board has been seeking opportunities in energy resources due to its long-term positive outlook. In addition, the Board is also exploring opportunities in the equipment manufacturing sector related to mining and general infrastructure.

Liquidity and financial resources

The Group generally financed its operations and investing activities with internally generated cashflows.

As at 31 December 2008, the Group had net current assets of approximately HK\$25.5 million (2007: HK\$35.5 million). The Board is confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

Foreign exchange exposure

Transactions of the Group were mainly denominated either in Hong Kong dollars, Renminbi or United States dollars. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk.

Charges on the group's assets

As at 31 December 2008, the Group's time deposits of approximately HK\$1.5 million were pledged to a bank in respect of banking facilities granted to the Group.

Material acquisition/disposal and significant investments

The Group did not have any material acquisition, disposal and significant investments in 2008.

Gearing ratio

The Group's total borrowings as at 31 December 2008 amounted to approximately HK\$15 million, all of which are represented by convertible bonds.

On this basis, the gearing ratio is calculated at (1.39) (2007: Nil), based on an amount of shareholders' equity of HK\$10,821,000.

Capital commitments

As at 31 December 2008, the Group had commitments of unpaid film rights of approximately HK\$0.4 million due to licensors and commitments of unpaid purchase costs of HK\$1.7 million due to suppliers.

Contingent liabilities

As at 31 December 2008, the Group had no contingent liabilities.

Employee information

As at 31 December 2008, the Group had a total of 14 employees. The total staff costs, including directors' emoluments, amounted to approximately HK\$6.6 million for the year under review.

Staff remuneration is reviewed by the Group from time to time depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefits including medical benefits and contributions to staff's provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors.

The emoluments of the Directors and senior management of the Company are determined in accordance with the recommendations from the remuneration committee of the Company. The remuneration committee of the Company considers factors including salaries paid by comparable companies, time commitment and responsibilities of the relevant employee, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

(c) For the year ended 31 December 2007***Financial performance***

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK\$50.7 million (2006: approximately HK\$71.1 million). Loss attributable to shareholders amounted to approximately HK\$17.4 million (2006: approximately HK\$12.1 million).

Decrease in consolidated turnover is mainly due to a drop of approximately 24.6% and 41.8% in the home video products distribution, and theatrical release arrangement and film rights sub-licensing, respectively, as compared to the same period prior year.

Business review

Despite facing a weak home video market, the Group released a number of new titles during the year, including ‘Casino Royale’, ‘Flushed Away’, ‘Open Season’, ‘Ghost Rider’, ‘Spider-Man 3’, and ‘Shrek the Third’. The Group has also started distributing Blu-ray discs in April 2007.

During the year under review, the Group’s PRC subsidiary, 北京年恩長影文化傳播有限公司 (Beijing Eralion Media Company Limited), has arranged theatrical releases for two film titles while five film titles had been released in the prior year. As a result, turnover has been decreased although the box office results are satisfactory for releasing the two film titles in the current year.

Future prospects and future plans

For the year ended 31 December 2007, the Group has been continuously facing the problem of illegal internet download, piracy, and fierce competition from competitors. These negative factors will impose challenges to the Group’s business. In order to complement the highly competitive home video products, the Board consider the diversification of business into new areas of high-growth potential which will be in the best interest of the Shareholders. As a result, the Board have been seeking opportunities in natural resource sector. And on 21 December 2007, the Company entered into a memorandum of understanding (the “MOU”) with Dean Management Limited (“Vendor”), a company incorporated in the British Virgin Islands, in relation to the possible acquisition of 25% equity interest of Tusunchovan Kebar Joint Venture Company Limited which was established in Mongolia (the “Target Company”) from Vendor (the “Possible Acquisition”) for a consideration of between US\$2.5 million to USD\$5 million (subject to valuation, due diligence and negotiation). The Target Company owns concession rights to certain natural resources in Mongolia.

Application of share issue proceeds

On 21 December 2007, the Company raised share issue proceeds, net of related expenses, of approximately HK\$25.5 million from the issue of 64,000,000 new shares in the Company. The resulting net proceeds have been retained as general working capital of the Group and will be available for any future possible acquisition, including the proposed investment in natural resource business.

Liquidity and financial resources

The Group generally financed its operations and investing activities with internally generated cashflows.

As at 31 December 2007, the Group had net current assets of approximately HK\$35.5 million (2006: HK\$26.0 million). The Board are confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

Foreign exchange exposure

Transactions of the Group were mainly denominated either in Hong Kong dollars, Renminbi or United States dollars. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk.

Charges on the group's assets

As at 31 December 2007, the Group's time deposits of approximately HK\$2.7 million were pledged to a bank in respect of banking facilities granted to the Group.

Material acquisition/disposal and significant investments

The Group did not have any material acquisition, disposal and significant investments during the year under review.

Gearing ratio

As at 31 December 2007, the Group did not have any borrowings. Therefore, the gearing ratio as at 31 December 2007 is nil.

Capital commitments

As at 31 December 2007, the Group had commitments of unpaid film rights of approximately HK\$5.7 million due to licensors and commitments of unpaid purchase costs of approximately HK\$1.8 million due to suppliers.

Contingent liabilities

As at 31 December 2007, the Group had no contingent liabilities.

Employee information

As at 31 December 2007, the Group had a total of 30 employees. The total staff costs, including directors' emoluments, amounted to approximately HK\$11.8 million for the year under review.

Staff remuneration is reviewed by the Group from time to time depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefits including medical insurance and contributions to staff's provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

The emoluments of the Directors and senior management of the Company are determined in accordance with the recommendations from the remuneration committee of the Company. The remuneration committee of the Company considers factors including salaries paid by comparable companies, time commitment and responsibilities of the relevant employee, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

(d) Capital structure for the three years ended 31 December, 2007, 2008 and 2009

As at year end 2009, the Group had a deficit of approximately HK\$15.7 million primarily as a result of loss for the year of approximately HK\$30.9 million. As at 31 December 2008, the capital and reserves attributable to the equity holders declined to approximately HK\$10.8 million from HK\$36.1 million due primarily to loss for the year during 2008. As at 31 December 2007, despite losses incurred by the Group, capital and reserves attributable to equity holders increased from approximately HK\$27.8 million in 2006 to approximately HK\$36.1 million by end 2007 due primarily to shares placement of approximately HK\$26.2 million.

On 1 May 2008, the Group issued convertible bonds with a nominal value of HK\$400,000 with a fixed interest rate of 3% per annum, which expired on 30 April 2010. On 14 July 2008, the Group issued convertible bonds with a nominal value of approximately HK\$21.7 million at a fixed interest rate of 1% per annum, valid until 13 July 2013. These convertible bonds of approximately HK\$22.1 million in total were outstanding as at 31 December 2008 and 2009. The Group did not have convertible bonds as at 31 December 2007.

Fixed interest rate was determined with reference to the Hong Kong Prime Rate. The Group does not hedge interest rate risk. As the Group's operations are solely in Hong Kong, it is not exposed to currency risk. The Group does not have any bank borrowings.

5. DISCLOSURE UNDER RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

As at the Latest Practicable Date, save as the deposit of approximately HK\$18,605,000 (originally denominated in USD of USD2,383,600 paid for a possible acquisition as disclosed in Note 23(b) to the audited financial statements of the Group for the year ended 31 December 2008, the Group did not (a) advance any money to any entity which exceeded 8% under the asset ratio as defined under Rule 19.07(1) of the GEM Listing Rules, or (b) provide any financial assistance and guarantees in respect of facilities granted to affiliated companies that exceeded 8% under the asset ratio as defined under Rule 19.07(1) of the GEM Listing Rules, or (c) have any pledge over the Shares by the controlling Shareholder to secure debts, guarantees or support of other obligations of the Group, or (d) enter into any loan agreements imposing specific performance obligations on the controlling Shareholder.

The Directors (together with the proposed Directors) confirmed that there were no circumstances which would give rise to disclosure requirements under Rules 17.15 to 17.21 of the GEM Listing Rules as at the Latest Practicable Date.

6. MATERIAL CHANGES

The Directors confirm that there are no material changes in the financial or trading position or outlook of the Group since 31 December 2009 (being the date to which the latest audited accounts of the Group were made up) up to and including the Latest Practicable Date, save for the below mentioned:

(a) Acquisition of the entire issued capital of Key Target

It was disclosed in the announcements of the Company dated 21 April and 5 May 2009 and circular of the Company dated 25 May 2009 that on 16 April 2009, the Purchaser entered into the Key Target Sale and Purchase Agreement with AIC and GFT in relation to the acquisition by the Purchaser of the entire issued capital of Key Target (a company incorporated in Hong Kong) which would acquire a 50% equity interest in 西安東方福星機械有限公司 (Xi'An Eastern Star Electric-Mechanical Limited Liability Company) ("Eastern Star"), a sino-foreign joint venture company established in the PRC. Eastern Star is principally engaged in manufacturing machinery and related moulds as well as modules for the manufacture of concrete masonry products, modular concrete products and other building materials. AIC, which is owned as to 90% in aggregate by Mr. Williams and his family whilst the remaining 10% is owned by an Independent Third Party and GFT, which is wholly-owned by Mr. Li Rubo.

The consideration for the acquisition is HK\$2.8 million and will be settled in full by way of issue of convertible bonds by the Company to AIC and GFT. The initial conversion price is HK\$0.2 per Share.

Pursuant to the Key Target Sale and Purchase Agreement, AIC and GFT will procure that on or before completion, the Company will be entitled to nominate and Eastern Star shall appoint a total of three out of four directors to the board of directors of Eastern Star, representing a majority control to Eastern Star. Upon the fact that the majority of the board composition of Eastern Star will be controlled by the Company upon such nomination, Eastern Star will be regarded as a subsidiary of the Company and its financial results will be consolidated into the accounts of the Group. The acquisition and the Key Target Sale and Purchase Agreement were approved by Shareholders on 11 June 2009. On 30 September 2009, the Company announced that the Purchaser, AIC and GFT entered into a supplemental agreement to extend the date for fulfilling the conditions precedent to the completion of the Key Target Sale and Purchase Agreement to on or before 31 December 2009 or such later date as may be agreed by the parties to the Key Target Sale and Purchase Agreement. On 31 December 2009, the Company further announced that such date has been extended to on or before 30 June 2010 (or such later date as may be agreed by the parties) pursuant to a supplemental agreement entered into between the Purchaser and the Sellers. Completion of

the above transaction is conditional upon the satisfaction of various conditions precedent set out in the Key Target Sale and Purchase Agreement, details of which have been disclosed in the announcements of the Company dated 21 April and 5 May 2009 and the circular of the Company dated 25 May 2009. In particular, as China Xi'an Eastern Machinery Factory and Beijing Stich Co., being the other existing shareholders of Eastern Star other than the Sellers, have been granted pre-emptive rights in respect of the equity interests of Eastern Star, the transfer of 50% equity interest in Eastern Star from the Sellers to Key Target, which is a condition precedent to completion of the Key Target Sale and Purchase Agreement, would require the waiver of such pre-emptive rights from China Xi'an Eastern Machinery Factory and Beijing Stich Co. As at the Latest Practicable Date, China Xi'an Eastern Machinery Factory and Beijing Stich Co. have not yet granted such waiver to the Sellers and the Company understands that the parties are still in negotiation regarding the same. If such waiver is not granted to the Sellers on or before 30 June 2010, being the scheduled long stop date for fulfilling conditions of the Key Target Sale and Purchase Agreement, and the parties to the Key Target Sale and Purchase Agreement cannot agree to further extension of the long stop date for fulfilling conditions of the Key Target Sale and Purchase Agreement, the acquisition contemplated under the Key Target Sale and Purchase Agreement will lapse. As the Company has decided to focus on the Acquisition and would not pursue the acquisition of Key Target and/or Eastern Star, the Directors do not intend to further extend the long stop date for the acquisition of Key Target and/or Eastern Star upon expiry on 30 June 2010. Since as of the Latest Practicable Date, the Sellers have not yet obtained the required consent, and the Sellers have indicated that they have no present intention to further extend the long stop date of fulfilling conditions of the Key Target Sale and Purchase Agreement to beyond 30 June 2010, the Board considers that it is unlikely for the acquisition of Key Target and Eastern Star to proceed to completion if the required consent is not obtained on or before 30 June 2010.

(b) The Acquisition and the Placing

The Agreement was entered into among parties for the Acquisition. As disclosed in the "Letter from the Board", in order to meet two of conditions precedent for Completion, the Company proposes to conduct the Placing to issue new Shares. Details of the Acquisition and the Placing are set out in the "Letter from the Board" contained in this circular.

(c) Memorandum of understanding regarding Russian mine project

In July 2008, the Company entered into a memorandum of understanding regarding the possible acquisition of a company principally owned by Mr. Li Rubo which owns certain coal mining operations in Sakhalin, Russia (the “Russian Mine Project”). It was stated in the announcement of the Company dated 7 July 2008 that the consideration of approximately HK\$112 million (subject to additional payment based on the target group’s performance in calendar year 2011, valuation, due diligence and negotiation) will be provided by the Company through the issue of either shares or convertible securities. As at the Latest Practicable Date, refundable deposits in a total amount of approximately US\$2.4 million have been paid by the Company in connection with the possible acquisition of the Russian Mine Project. The Company announced on 19 March 2009 that the long stop date for the closing of such possible acquisition has been extended to 31 December 2009. The Company further announced on 31 December 2009 that such date has been extended to 30 June 2010. The completion of the above transaction was delayed because additional time is required to complete due diligence review on the target group, which includes but not limited to the review on the financial results of the target group for the year ended 31 December 2009. If by 30 June 2010, being the scheduled completion date of the Russian Mine Project, (i) the due diligence review is not completed; (ii) a legally binding agreement is not executed between the parties; and (iii) completion of such legally binding agreement in accordance with the terms thereof does not take place, and the parties to the Russian Mine Project cannot agree to further extension of the completion date of the Russian Mine Project to beyond 30 June 2010, the Russian Mine Project will lapse. As the Company has decided to focus on the Acquisition and would not pursue the Russian Mine Project further, the Directors do not intend to further extend the long stop date for the Russian Mine Project upon expiry on 30 June 2010. As none of (i) to (iii) above has been completed as of the Latest Practicable Date, and Mr. Li Rubo, as the principal owner of the Russian Mine Project, has indicated that he has no present intention to further extend the completion date of the Russian Mine Project to beyond 30 June 2010, the Board considers that it is unlikely for the Russian Mine Project to proceed to completion.

(d) Fair value adjustment for the derivative components of convertible bonds of the Company

It is stated in the 2009 annual report of the Company that convertible bonds which entitle the holder to convert into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability components and is carried as a liability at amortised cost using the effective interest rate method until extinguished on conversion or redemption. The derivative components are measured at fair value and the fair value change will be recognised in profit or loss.

The Group recorded a loss attributable to owners of the Company of approximately HK\$30.9 million for the year ended 31 December 2009. The Group recorded fair value gain on derivative components of convertible bonds of approximately HK\$6.8 million in 2008 while a loss of approximately HK\$13.5 million was recorded by the Group in 2009. For the three months ended 31 March 2010, the Group recorded an unaudited loss attributable to owners of the Company of approximately HK\$12.8 million with unaudited fair value loss on derivative component of convertible bonds of approximately HK\$8.2 million. Since the fair value on derivative components of convertible bonds is subject to change, such change will continue to be recorded in the financial statements of the Group until redemption or conversion of the convertible bonds.

(e) Future intentions of the Vendor regarding the Group

It is stated in the section headed “Future intentions of the Vendor regarding the Group” as set out in the “Letter from the Board” contained in this circular that the Vendor is conducting a detailed review of the existing business and staff structure of the Group to become as efficient as possible in its core business. Subject to the review, the Vendor intends to continue the employment of employees for the continuity of the Group’s existing business. The Vendor does not have any plan for redeployment of the fixed assets of the Group as at the Latest Practicable Date, but the Company may seek to attract into the holding structure of the Target Group and/or the Company strategic industry investors of international standing in the mining equipment manufacturing industry if the Board considers such investors could materially assist the Target Group to realise its expansion plans. The Vendor has received expressions of interest from a number of such investors over the past several years. However, no agreement has been reached for any strategic investment and, bearing in mind the complexities encountered in previous discussions and their time consuming nature, it is not possible to predict whether such an agreement can be satisfactorily concluded in the foreseeable future. Nevertheless, the Vendor sees substantial potential advantages in a shareholding with a suitable group of international standing and will continue to explore this possibility. In addition, or as an alternative, to an investment, the Company may seek access to intellectual property of a company of international standing through a licensing or similar co-operative agreement. As part of its efforts to build a strategic relationship with an international mining machinery producer, the Target Group has been working to qualify itself as supplier on international long wall mining projects. To that end, during preliminary testing of products that it may wish to produce for the international market, it has signed an agreement not to disclose any proprietary technology or manufacturing processes supplied to the Target Group. The Target Group’s efforts in this regard are still in the due diligence phase and no binding commitments have been made yet either by the Target Group or any potential strategic partner to work together on international projects. Accordingly, there may be material changes in the financial or trading position or outlook of the Group after Completion. A summary of the future intentions of the Vendor regarding the Group are set out in the section headed “Future intentions of the Vendor regarding the Group” as set out in the “Letter from the Board” contained in this circular.

(f) First quarter results

The Group recorded unaudited profit attributable to equity holders of the Company of approximately HK\$2.4 million for the three months ended 31 March 2009. During the three months ended 31 March 2010, the Group recorded unaudited loss attributable to equity holders of the Company of approximately HK\$12.8 million. Further details of 2010 first quarter results are set out in the quarterly report of the Company.

7. INDEBTEDNESS

As at 31 December 2007, 2008 and 2009 and 30 April 2010, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness as follows:

Borrowings

As at 31 December 2007, 2008 and 2009 and 30 April 2010, the Group had outstanding borrowings of other loans of approximately HK\$1,142,000, HK\$3,458,000, 2,402,000 and HK\$3,264,000 respectively.

Convertible bonds

As at the close of business on 31 December 2008 and 2009 and 30 April 2010, the Group had the following outstanding convertible loans:

- (a) 3% convertible bonds with outstanding principal amount of approximately HK\$400,000 issued by the Company on 1 May 2008 (“CB1”). CB1 carries interest at 3% per annum payable semi-annually in arrears on the last day of each half year. The maturity date of these convertible bonds is two years after the issue of the convertible bonds, i.e. 30 April 2010. As of the Latest Practicable Date, the Company has not yet redeemed these convertible bonds, and have received written confirmation from the holders of the convertible bonds that they have no present intention to claim against the Company notwithstanding that the Company has not yet repaid the principal or redeemed the convertible bonds.
- (b) 1% convertible bonds with outstanding principal amount of approximately HK\$21,727,000 issued by the Company on 14 July 2008 (“CB2”). CB2 carries interest at 1% per annum payable semi-annually in arrears on the last day of each half year. On 5 February 2010, convertible bonds amounted to approximately HK\$400,000 were converted. As at 30 April 2010, the outstanding principal amount of CB2 amounted to approximately HK\$21,327,000.

No convertible bond was outstanding as at 31 December 2007.

Pledge of assets

Save as disclosed above, as at the close of business on 30 April 2010, time deposits with carrying amounts of approximately HK\$35,000 which were pledged to bank to secure banking facilities granted to the Group.

Contingent liabilities

As at the close of business on 30 April 2010, the Group did not have any significant contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 30 April 2010, the Group did not have any other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The information set forth in this appendix does not form part of the accountants' reports prepared by RSM Nelson Wheeler, Certified Accounts, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this circular, and is included herein for illustrative purposes only.

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed Acquisition of the entire equity interest in the Target might have affected the financial information of the Group.

The unaudited pro forma consolidated statement of comprehensive income and consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2009 are prepared based on the audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2009 as extracted from the annual report of the Company for the year ended 31 December 2009 and the audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2009 as extracted from the accountants' report set out in Appendix IA to this circular as if the Acquisition had been completed on 1 January 2009.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2009 is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2009 as extracted from the annual report of the Company for the year ended 31 December 2009 and the audited consolidated statement of financial position of Target as at 31 December 2009 as extracted from the accountants' report set out in Appendix IA to this circular as if the Acquisition had been completed on 31 December 2009.

The unaudited pro forma financial information of the Enlarged Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Acquisition actually occurred on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix II, the financial information of the Target Group as set out in Appendix IA and other financial information included elsewhere in this circular.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
**B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER
2009**

	The Group HK\$'000	The Target Group HK\$'000	Subtotal HK\$'000	Pro forma Adjustments		The Enlarged Group HK\$'000
				Note (i) HK\$'000	Note (ii) HK\$'000	
Turnover	2,599	1,404,769	1,407,368			1,407,368
Cost of sales	(540)	(1,172,838)	(1,173,378)			(1,173,378)
Gross profit	2,059	231,931	233,990			233,990
Other income	12,071	53,668	65,739	23,040		88,779
Negative goodwill	–	–	–		200,821	200,821
Selling and distribution costs	–	(67,735)	(67,735)			(67,735)
Administrative expenses	(23,720)	(37,699)	(61,419)			(61,419)
Fair value loss on derivative components of convertible bonds	(13,507)	–	(13,507)			(13,507)
Other operating expenses	(6,473)	(2,937)	(9,410)			(9,410)
(Loss)/profit from operations	(29,570)	177,228	147,658			371,519
Finance costs	(1,349)	(20,066)	(21,415)			(21,415)
(Loss)/profit before tax	(30,919)	157,162	126,243			350,104
Income tax expenses	(3)	(26,227)	(26,230)			(26,230)
(Loss)/profit for the year attributable to equity holders of the Company	(30,922)	130,935	100,013			323,874
Other comprehensive income:						
Exchange differences on translating foreign operations	(95)	–	(95)			(95)
Other comprehensive income for the year, net of tax	(95)	–	(95)			(95)
Total comprehensive (loss)/income for the year attributable to equity holders of the Company	(31,017)	130,935	99,918			323,779

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
**C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL
POSITION OF THE ENLARGED GROUP AS AT 31 DECEMBER 2009**

	The Group	The Target Group	Subtotal	Note (iii) HK\$'000	Proforma adjustments Note (iv) HK\$'000	Note (v) HK\$'000	Note (vi) HK\$'000	The Enlarged Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS								
Non-current assets								
Property, plant and equipment	260	163,103	163,363					163,363
Prepaid land lease payments	–	13,561	13,561					13,561
Goodwill	–	3,508	3,508		389,899 (a)			393,407
Intangible assets	–	3,750	3,750					3,750
	<u>260</u>	<u>183,922</u>	<u>184,182</u>					<u>574,081</u>
Current assets								
Inventories	–	183,679	183,679					183,679
Trade and other receivables	25,586	1,094,723	1,120,309					1,120,309
Prepaid land lease payments	–	358	358					358
Amount due from a director of a subsidiary	–	23	23					23
Amounts due from related parties	–	48,296	48,296					48,296
Income tax recoverable	9	–	9					9
Pledged bank deposits	34	93,097	93,131					93,131
Bank and cash balances	5,266	30,947	36,213	349,200	(3,600) (c)		(155,663)	226,150
	<u>30,895</u>	<u>1,451,123</u>	<u>1,482,018</u>					<u>1,671,955</u>
Current liabilities								
Trade and other payables	15,901	1,061,770	1,077,671					1,077,671
Borrowings	–	300,549	300,549				(155,663)	144,886
Warranty provisions	–	1,875	1,875					1,875
Amount due to ultimate holding company	–	23,018	23,018				(23,018)	–
Amounts due to related companies	–	6,081	6,081					6,081
Derivative components of convertible bonds	14,548	–	14,548					14,548
Convertible bonds – current portion	394	–	394					394
Current tax liabilities	–	22,060	22,060					22,060
	<u>30,843</u>	<u>1,415,353</u>	<u>1,446,196</u>					<u>1,267,515</u>
Net current assets	<u>52</u>	<u>35,770</u>	<u>35,822</u>					<u>404,440</u>
Total assets less current liabilities	<u>312</u>	<u>219,692</u>	<u>220,004</u>					<u>978,521</u>
Non-current liabilities								
Convertible bonds	16,008	–	16,008					16,008
	<u>16,008</u>	<u>–</u>	<u>16,008</u>					<u>16,008</u>
Net (liabilities)/assets	<u>(15,696)</u>	<u>219,692</u>	<u>203,996</u>					<u>962,513</u>
Equity								
Share capital	3,996	1	3,997	12,000	(15,996) (d)			1
Share premium	92,871	–	92,871	337,200	719,803 (a)			719,803
Share options reserve	4,877	–	4,877		(430,071) (d)			–
Exchange reserve	(514)	11,675	11,161		514 (d)			11,675
(Accumulated losses)/Retained earnings	(116,926)	172,770	55,844		116,926 (d)	23,018		195,788
Statutory reserve	–	35,246	35,246					35,246
(CAPITAL DEFICIENCY)/ TOTAL EQUITY	<u>(15,696)</u>	<u>219,692</u>	<u>203,996</u>					<u>962,513</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
**D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF
THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2009**

	The Group	The Target Group	Subtotal	Note (i) HK\$'000	Proforma adjustments			The Enlarged Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Note (vii) HK\$'000	Note (viii) HK\$'000	Note (ix) HK\$'000	HK\$'000
CASH FLOW FROM OPERATING ACTIVITIES								
(Loss)/profit from operations	(30,919)	157,162	126,243	23,040				149,283
Adjustments for:								
Depreciation	139	15,280	15,419					15,419
Amortisation of intangible assets	–	1,649	1,649					1,649
Amortisation of prepaid land lease payments	–	322	322					322
Bad debts written off	1,529	–	1,529					1,529
Gain on disposal of property, plant and equipment	–	(3,179)	(3,179)					(3,179)
Equity-settled share-based payments	2,733	–	2,733					2,733
Fair value loss on derivative components of convertible bonds	13,507	–	13,507					13,507
Inventories written off	–	2,330	2,330					2,330
Allowances of trade and other receivables	4,942	36	4,978					4,978
Reversal of allowances for trade and other receivables	(182)	–	(182)					(182)
Reversal of allowance for prepayments and deposits	(10,168)	–	(10,168)					(10,168)
Waiver of other loan	–	–	–	(23,040)				(23,040)
Interest income	(837)	(1,800)	(2,637)					(2,637)
Finance costs	1,349	19,308	20,657					20,657
Operating (loss)/profit before working capital changes	(17,907)	191,108	173,201					173,201
Increase in inventories	–	(81,372)	(81,372)					(81,372)
Decrease/(increase) in trade and other receivables	13,525	(483,579)	(470,054)					(470,054)
Increase in amounts due from related companies	–	49,481	49,481					49,481
(Decrease)/increase in trade and other payables	(337)	413,724	413,387					413,387
Decrease in amounts due to ultimate holding company	–	(22)	(22)					(22)
Increase in amount due from a director of a subsidiary	–	(15)	(15)					(15)
Decrease in amounts due to related companies	–	(18,949)	(18,949)					(18,949)
Cash (used in)/generated from operating activities	(4,719)	70,376	65,657					65,657
Interest paid	(19)	(19,308)	(19,327)					(19,327)
Income tax paid	(23)	(17,554)	(17,577)					(17,577)
Net cash (used in)/generated from operating activities	(4,761)	33,514	28,753					28,753

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group	The Target Group	Subtotal	<i>Note (i)</i>	Proforma adjustments		<i>Note (ix)</i>	The Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOW FROM INVESTING ACTIVITIES								
Decrease/(increase) in pledged bank deposits	1,449	(68,448)	(66,999)					(66,999)
Payments for prepaid land lease	-	(11,169)	(11,169)					(11,169)
Purchases of property, plant and equipment	-	(72,325)	(72,325)					(72,325)
Proceeds from disposal of property, plant and equipment	-	22,294	22,294					22,294
Purchases of intangible assets	-	(1,558)	(1,558)					(1,558)
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	-	-	-			6,466		6,466
Interest income	837	1,800	2,637					2,637
	<u>2,286</u>	<u>(129,406)</u>	<u>(127,120)</u>					<u>(120,654)</u>
Net cash generated from/(used in) investing activities								
CASH FLOW FROM FINANCING ACTIVITIES								
Proceeds from issue of shares	1,275	-	1,275		349,200			350,475
Share issue expenses paid	-	-	-			(3,600)		(3,600)
Bank borrowings repaid	-	(94,318)	(94,318)					(94,318)
Bank borrowings raised	-	206,250	206,250					206,250
Other borrowing raised	-	10,853	10,853					10,853
Other borrowings repaid	-	-	-				(144,810)	(144,810)
	<u>1,275</u>	<u>122,785</u>	<u>124,060</u>					<u>324,850</u>
Net cash generated from financing activities								
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,200)	26,893	25,693					232,949
CASH AND CASH EQUIVALENTS AT 1 JANUARY 2009	6,466	4,054	10,520			(6,466)		4,054
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2009, represented by bank and cash balances	5,266	30,947	36,213					237,003

**E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP**

- (i) Pursuant to the Agreement the Vendor agreed to waive the loan owing from the Target to the Vendor upon Completion. The adjustment represents the recognition of the income from the waiver of the loan amounted to HK\$23,040,000 as at 1 January 2009 as if the Acquisition had taken place on 1 January 2009.*
- (ii) The adjustment represents recognition of negative goodwill as a result of the Acquisition as if the Acquisition had been taken place on 1 January 2009. According to the Agreement, the Group shall acquire the entire equity interests in the Target, which holds 100% equity interest in Zhengzhou Siwei, from the Vendor. The consideration for the Acquisition is satisfied by the Company allotting and issuing 4,000,000,000 ordinary shares (the “Consideration Shares.”)

For the purpose of preparing the pro forma consolidated statement of comprehensive income, the negative goodwill for the Acquisition is calculated as if the Acquisition had been completed on 1 January 2009 and the Company has settled the consideration by allotting and issuing 4,000,000,000 Consideration Shares to the Vendor at an issue price of HK\$0.10, representing the closing share price of the Company as at 1 January 2009 (the latest trading date prior to 1 January 2009), totalling HK\$400,000,000. Consequently, the Vendor would hold 71.63% equity interest in the Company on 1 January 2009. In accordance with Hong Kong Financial Reporting Standard 3 “Business Combinations” (“HKFRS 3”), the Acquisition is accounted for using the reverse acquisition accounting, whereby the Target is accounted for as the acquirer and the Company as the acquiree of the Acquisition.

Negative goodwill of HK\$200,821,000 represents the excess of the fair value of the Vendor’s share of the net identifiable assets of the Group of HK\$360,021,000 as at 1 January 2009 after the issuance of 1,200,000,000 shares at the price of HK\$0.291 per share over the cost of the reverse acquisition of HK\$159,200,000. The cost of the reverse acquisition is deemed to have been incurred by the Vendor in the form of 28.37% equity interest in the Enlarged Group issued to the owners of the Company. For the purpose of preparing the pro forma consolidated statement of comprehensive income, the consideration for the Acquisition of HK\$400,000,000 is deemed to be the fair value of 71.63% equity interest in the Enlarged Group on 1 January 2009. Accordingly the cost of the reverse acquisition, which represents the fair value of 28.37% equity interest in the Enlarged Group on 1 January 2009, is calculated proportionally at HK\$158,400,000 plus the direct costs attributable to the Acquisition of HK\$800,000 as if the Acquisition had taken place on 1 January 2009. Negative goodwill is recognised immediately in the consolidated statement of comprehensive income.*

For the purpose of compiling this unaudited pro forma statement of comprehensive income, the fair value of the net identifiable assets of the Company to be acquired by the Vendor as at 1 January 2009 is assumed to be the net assets value of the Group as at 1 January 2009 of HK\$10,821,000 plus the proceeds of HK\$349.2 million from the issuance of 1,200,000,000 shares at an issue price of HK\$0.291 as described in note (iii) below. The carrying amount of the net assets of the Group as at 1 January 2009 approximate their fair value.

Since the fair value of the assets and liabilities of the Group as at the date of Completion may be different from their fair values used in the preparation of the unaudited pro forma financial information presented above, the actual goodwill arising from the Acquisition, if any, maybe different from the estimated amount as presented above.

- (iii) Pursuant to the Agreement, the Group and/or the Vendor agreed to obtain external financing by way of capital market fund raising or other means in an amount not less than HK\$200 million which would be used to repay the loan due from the Target to a third party creditor (the “Third Party Loan”), the accrued interest and the bridge loans from Mr. Williams, Mr. Li Rubo and Williams Realty Co, LLC (details of which are set out in the paragraph headed “Consideration” under the section headed “The Agreement” contained in the “Letter from the Board” of this Circular). There also has a condition precedent to maintain 25% minimum public float of the Company immediately after Completion. For the purpose of preparing the pro forma consolidated statement of financial position, it is assumed that the Company will raise approximately HK\$349.2 million from the capital market to repay the Third Party Loan and to maintain 25% minimum public float of the Company, the balance to be used for working capital of the Company and the Target Group.

The adjustment represents the issuance of 1,200,000,000 shares at a price of HK\$0.291 per share, representing the expected minimum placing price for cash fully paid totaling HK\$349.2 million by placement, deemed had been completed on 31 December 2009. From which HK\$12,000,000 was credited to share capital and the remaining balance of HK\$337,200,000 was credited to the share premium account.

(iv) The adjustments represent the followings:

- (a) Recognition of goodwill as a result of the Acquisition as if the Acquisition had been taken place on 31 December 2009. According to the Agreement, the Group shall acquire the entire equity interests in the Target. The consideration for the Acquisition is satisfied by the Company allotting and issuing 4,000,000,000 Consideration Shares.

For the purpose of preparing the pro forma consolidated statement of financial position, the goodwill for the Acquisition is calculated as if the Acquisition had been completed on 31 December 2009 and the Company has settled the consideration by allotting and issuing 4,000,000,000 Consideration Shares to the Vendor at an issue price of HK\$0.45, representing the closing share price of the Company as at 31 December 2009 (the latest trading date prior to 31 December 2009), totalling HK\$1,800,000,000. Consequently, the Vendor would hold 71.43% equity interest in the Company on 31 December 2009. In accordance with HKFRS 3, the Acquisition is accounted for using the reverse acquisition accounting, whereby the Target is accounted for as the acquirer and the Company as the acquiree of the Acquisition.

Goodwill of HK\$389,899,000 represents the excess of the cost of the reverse acquisition of HK\$723,403,000 over the fair value of the Vendor's share of the net identifiable assets of the Group of HK\$ 333,504,000 after the issuance of 1,200,000,000 shares at the price of HK\$ 0.291 per share. The cost of the reverse acquisition is deemed to have been incurred by the Target at a value equal to 28.57% equity interest in the Enlarged Group issued to the owners of the Company. For the purpose of preparing the pro forma consolidated statement of financial position, the consideration for the Acquisition of HK\$1,800,000,000 is deemed to be the fair value of 71.43% equity interest in the Enlarged Group on 31 December 2009. Accordingly the cost of the reverse acquisition, which represents the fair value of 28.57% equity interest in the Enlarged Group on 31 December 2009, is calculated proportionally at HK\$719,803,000 plus the direct costs attributable to the Acquisition of HK\$3,600,000 as if the Acquisition had taken place on 31 December 2009.

For the purpose of compiling this unaudited pro forma statement of financial position, the fair value of the net identifiable assets of the Company to be acquired by the Vendor as at 31 December 2009 is assumed to be the net liabilities value of the Group as at 31 December 2009 of HK\$15,696,000 plus the proceeds of HK\$349.2 million from the issuance of 1,200,000,000 shares at an issue price of HK\$0.291 as described in note (iii) above. The carrying amounts of the net assets of the Group as at 31 December 2009 approximate their fair value.

In accordance with HKFRS 3 and for accounting purpose, the Acquisition has taken place in the form of the Target issuing additional ordinary shares at an aggregate value of HK\$719,803,170 (cost of the reserve acquisition) which represents 28.57% of equity interest of the Enlarged Group to the Company's shareholders in exchange for their shareholding in the Company. The Company's existing shareholders and the Vendor would then own 28.57% and 71.43% equity interest of the Enlarged Group respectively. The share capital of the Enlarged Group will become HK\$14 which comprises the par value of the existing one share and the additional shares at HK\$10 each. The premium on the issue of additional shares, amounting to HK\$719,803,166, was credited to the share premium account. The adjustment represents the share premium of the above additional shares of HK\$719,803,166.

Since the fair value of the assets and liabilities of the Group as at the date of Completion may be different from their fair values used in the preparation of the unaudited pro forma financial information presented above, the actual goodwill arising from the Acquisition, if any, may be different from the estimated amount as presented above.

- (b) Allotment and issuance of the Consideration Shares, 4,000,000,000 new shares, at HK\$0.45 per share, representing the closing share price of the Company as at 31 December 2009 (latest trading date prior to 31 December 2009) and the fair value of the Shares in accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations", as if the Acquisition had taken place on 31 December 2009.
- (c) Payment of cost directly attributable to the Acquisition of approximately HK\$3,600,000, deemed had been paid on 31 December 2009.
- (d) Elimination of owners' equity of the Group and the Target Group as if the Acquisition had taken place on 31 December 2009.

- (v) The adjustment represents the recognition of the income from the waiver of the loan owing from the Target to the Vendor as set out in note (i) above. As at 31 December 2009, the outstanding amount of the loan owing from the Target to the Vendor was HK\$23,018,000 which was assumed to be waived by the Vendor upon Completion if the Acquisition had taken place on 31 December 2009. Accordingly, for presentation purpose, such amount is credited to the retained profits.
- (vi) The adjustment represents the repayment of the Third Party Loan as described in note (iii) above, if the Acquisition had been taken place on 31 December 2009.
- (vii) The adjustment represents the issuance of 1,200,000,000 shares at a price of HK\$0.291 per share, representing the closing price of the Company as at 31 December 2008 (latest trading date prior to 1 January 2009), for cash fully paid totaling HK\$349.2 million by placement, deemed had been completed on 1 January 2009.*
- (viii) The adjustment represents the completion and the payment of cost directly attributable to the Acquisition of approximately HK\$3,600,000, deemed had been paid on 1 January 2009. As at 1 January 2009, the Group had cash and cash equivalents of HK\$6,466,000, which was assumed to be acquired by the Target Group upon acquisition and therefore, for presentation purpose, such amount is deducted to cash consideration paid for acquisition of subsidiaries.**
- (ix) The adjustment represents the repayment of the Third Party Loan as described in note (iii) above, deemed had been settled on 1 January 2009. As at 1 January 2009, the outstanding amount of the Third Party Loan was HK\$144,810,000 and therefore, for presentation purpose, such amount is added to the amount of other borrowings repaid.**

* *The adjustment will not have resuming effect on the Enlarged Group.*

** *The adjustment will not have resuming effect on the statement of cash flows of the Enlarged Group.*

**F. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
中瑞岳華 (香港) 會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 June 2010

The Board of Directors

ERA Holdings Global Limited

("Formerly known as Era Information & Entertainment Limited")

Somerley Limited

Dear Sirs,

We report on the unaudited pro forma financial information of ERA Holdings Global Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the entire equity interest in International Mining Machinery Siwei Holdings Limited might have affected the financial information of the Group presented, for inclusion in Appendix III to the circular of the Company dated 30 June 2010 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page III – 1 to III – 10 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibilities solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, 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. The 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 paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

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 31 December 2009 or any future date;
or
- the results and cash flows of the Group for the year ended 31 December 2009 or any future periods.

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 paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

The following is the text of a letter of valuations and valuation certificates prepared for the purpose of incorporation in this circular, received from Greater China Appraisal Limited, an independent property valuer, in connection with their opinion of values of the property interests of the Enlarged Group as at 30 April 2010.



GREATER CHINA APPRAISAL LIMITED
漢華評值有限公司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

30 June 2010

The Directors
ERA Holdings Global Limited
Room 9B, 9th Floor, Shun Ho Tower
24-30 Ice House Street
Central
Hong Kong

Dear Sirs,

In accordance with the instructions from ERA Holdings Global Limited (“the Company”) to value the property interests of the enlarged group (the “Enlarged Group”) after the acquisition of Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd. (the “Target Company”) in the People’s Republic of China (the “PRC”) and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the capital value of such property interests as at 30 April 2010 (referred to as the “date of valuation”).

It is our understanding that this valuation is used for very substantial acquisition purpose.

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of properties and the limiting conditions.

BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after property marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

VALUATION METHODOLOGY

Due to the nature of buildings and structures constructed, there is no readily identifiable market comparable to the property, we have applied the cost method of valuation in assessing the properties. It is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the date of valuation.

This method of valuation, cost method, is based on an estimate of the market value for the existing use of the land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

The cost method generally furnishes the most reliable indication of value for property in the absence of a known market based on comparables.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the property in their continued uses and in their existing states without the benefit of any deferred term contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the property.

Continued use assumes the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation on the property in continued use does not represent the amount that might be realized from piecemeal disposition of the property on the open market.

For the properties which are held under long term Land Use Rights, we have assumed that the owners of the properties have free and uninterrupted rights to use or transfer the properties for the whole of the unexpired term of the respective Land Use Rights. In our valuation, we have assumed that the properties can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities. Unless stated as otherwise, vacant possession is assumed for the property concerned.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures falling within the site are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. Moreover, it is assumed that the utilization of the land and improvements occur within the boundaries of the property described and that no encroachment or trespassing have taken place, unless noted in the report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. In addition, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificates.

TITLE INVESTIGATION

For the properties classified as Group I which are owned by the Target Company in the PRC, we have been provided with copy of title documents or sale and purchase agreements. However, due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigations have been made for the legal title or any material liabilities attached to the property.

For the properties classified as Group II and Group III which are rented to the Target Company and the Company, we have been provided with copy of tenancy agreements. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us.

In the course of our valuation, we have relied upon the legal opinions as stated in the title report given by Commerce & Finance Law Offices (“the PRC Lawyer”) in relation to the legal title to the properties located in the PRC under valuation.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this report.

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the property included in the attached valuation certificate. However, no structural survey has been made and we are therefore unable to report as to whether the properties are free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the property but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

No soil investigation has been carried out to determine the suitability of the ground conditions or the services for any property development.

We do not investigate any industrial safety, environmental and health related regulations in association with any particular manufacturing process of the Target Company. It is assumed that all necessary licences, procedures and measures were implemented in accordance with government legislation and guidance.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Company or the Target Company and have accepted advice given to us by it on such matters as planning approvals, statutory notices, easements, tenure, occupation, rentals, site and floor areas and in the identification of the property in which the Company or the Target Company has valid interests. Floor areas of the property stated herein are ascertained by us by scaling off the registered floor plans of the subject development.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company or the Target Company. We were also advised by the Company or the Target Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the interests are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We were advised by the instructing party that, as the properties held by the Target Group (classified as Group I) are for production purpose, the Target Company does not have any intention to sell these properties. Therefore, the amount of tax liabilities would not be quantifiable nor crystallized. Should disposal of the property be conducted, the potential tax liabilities arising will include the sales tax (5.0% on the transaction price) and land appreciation tax (varies from 30% to 60% on the appreciation depending on the ratio of the appreciation to the original cost of the property).

For the properties classified as Group I and Group II, since the properties are located in a relatively under-developed market, the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the properties depending upon the assumptions made. While the valuer has exercised his professional judgment in arriving at the value, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

OPINION OF VALUE

Valuation figures of the properties held by the Company or the Target Company are shown in the attached summary of valuation and their respective valuation certificates.

For the properties classified as Group II and Group III which are rented to the Target Company and the Company from independent third party under tenancy agreements, they have no commercial value due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rent.

REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Rules”), including but are not limited to the provisions of Chapter 8 of the Rules.

In valuing the properties, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

Valuation figures are denominated in Chinese Renminbi and Hong Kong Dollars.

We enclose herewith the summary of valuation and valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

K. K. Ip *BLE, LLD*
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in Hong Kong and the PRC since 1992.

SUMMARY OF VALUATION

No.	Property	Market Value as at 30 April 2010
Group I – Property Interests held by the Target Company in the PRC		
1.	No. 7 Jinsuo Road, High-tech Development Zone Zhengzhou, Henan Province The PRC	RMB14,500,000
2.	No. 9 Jinsuo Road, High-tech Development Zone Zhengzhou, Henan Province The PRC	RMB14,400,000
3.	Southern Side of Guanggu Road, Dongzhuang Village, Guangwu Town Xingyang, Henan Province The PRC	RMB36,800,000
	Sub-total:	<u>RMB65,700,000</u>
Group II – Property Interests rented by the Target Company in the PRC		
4.	Northern Side of Wutong Street, Western Side of Yinping Road South, High-tech Development Zone Zhengzhou, Henan Province The PRC	no commercial value
5.	No. 5 Cargo Area, Zhengzhou Zhongchu Nanyangzhai Warehouse No. 9 Xinglongpu Road Zhengzhou, Henan Province The PRC	no commercial value
	Sub-total:	<u>no commercial value</u>

Group III – Property Interests rented by the Company in Hong Kong

6. 9th Floor, no commercial value
Shun Ho Tower
Nos. 24-30 Ice House Street
Central, Hong Kong

Sub-total: no commercial value

Grand Total: RMB65,700,000

VALUATION CERTIFICATE

Group I – Property Interests held by the Target Company in the PRC

No.	Property	Descriptions	Particulars of Occupancy	Market value as at 30 April 2010
1.	No. 7 Jinsuo Road, High-tech Development Zone Zhengzhou, Henan Province The PRC	The property comprises a parcel of land (“the Land”) with a land area of approximately 12,390 square metres, 2 buildings (the “Buildings”) erected on the Land. The Buildings were completed in 2003.	The property is currently occupied by the Target Company as a production plant.	RMB14,500,000

The total gross floor area of the Buildings is approximately 6,757.87 square metres. Detailed breakdown is shown as follows:

Buildings	No. of Blocks	No. of Storeys	Gross Floor Area (sq.m.)
Factory	1	1	4,991.00
Office	1	4	1,766.87
Total:	<u>2</u>		<u>6,757.87</u>

The property is held under a State-owned Land Use Rights Certificate for a term expiring on 30 October 2051 for industrial use.

Notes:

- (i) According to a State-owned Land Use Rights Certificate (Zheng Guo Yong (2003) Zi No. 0273) issued by People's Government of Zhengzhou dated 5 August 2003, the land use rights of the Land have been granted to the Target Company for a term expiring on 30 October 2051 for industrial use.
- (ii) According to 2 sets of Building Ownership Certificate (Zheng Gao Kai Fang Quan Zheng Zi Nos. 2003070301 and 2003070302), the Buildings with a total gross floor area of 6,757.87 square metres are held by the Target Company.
- (iii) As at the valuation date, there was 1 block of 2-storery office buildings (other than the Buildings), with a gross floor area of approximately 536 square metres, of which no Building Ownership Certificate has been obtained. We have attributed no commercial value to this building. For reference purpose, assuming free of encumbrances, the depreciated replacement cost of this building as at the valuation date is approximately RMB470,000 which has been excluded from our valuation.
- (iv) Opinions of the PRC Legal Advisor are summarized as follows:
 - (a) The Target Company has obtained a set of State-owned Land Use Rights Certificate dated 5 August 2003 by which the land use rights of the Lands have been granted to the Target Company for industrial use with land use rights term expiring on 30 October 2051.
 - (b) The Target Company has obtained 2 sets of Building Ownership Certificate dated 3 July 2003 in respect of the Buildings.
 - (c) The property is subject to mortgage in favour of Bank of Communications Henan Branch.
 - (d) In respect of the building without Building Ownership Certificate, there exists a risk that the Target Company will be punished for the usage of building before obtaining of Construction Planning Approval and passing the acceptance examination for the building.

No.	Property	Descriptions	Particulars of Occupancy	Market value as at 30 April 2010
2.	No.9 Jinsuo Road, High-tech Development Zone Zhengzhou, Henan Province The PRC	<p>The property comprises a parcel of land (“the Land”) with a land area of approximately 3,958.56 square metres, 1 block of 4-storey industrial building (the “Building”) erected on the Land. The Building was completed in 2005.</p> <p>The gross floor area of the Building is approximately 10,035.38 square metres.</p> <p>The property is held under a State-owned Land Use Rights Certificate for a term expiring on 15 March 2043 for industrial use.</p>	The property is currently occupied by the Target Company as processing workshop, hydraulic workshop and research & development personnel office.	RMB14,400,000

Notes:

- (i) According to a State-owned Land Use Rights Certificate (Zheng Guo Yong (2007) Zi No. 0620) issued by People’s Government of Zhengzhou dated 20 July 2007, the land use rights of the Land have been granted to the Target Company for a term expiring on 15 March 2043 for industrial use.
- (ii) According to a Building Ownership Certificate (Zheng Fang Quan Zheng Gao Kai Zi No. 20070392), the Buildings with a total gross floor area of 10,035.38 square metres are held by the Target Company.
- (iii) According to a Real Estate Property Rights Transfer Contract dated 22 November 2006 between 河南四季胖哥實業有限公司 (Henan Siji Pangge Industrial Co., Ltd) (“Siji Pangge”) as seller and the Target Company as buyer, the ownership of the property was transferred from Siji Pangge to the Target Company in the consideration of RMB10,600,000.
- (iv) Opinions of the PRC Legal Advisor are summarized as follows:
 - (a) The Target Company has obtained a set of State-owned Land Use Rights Certificate dated 20 July 2007 by which the land use rights of the Lands have been granted to the Target Company for industrial use with land use rights term expiring on 15 March 2043.
 - (b) The Target Company has obtained a set of Building Ownership Certificate dated 28 March 2007 in respect of the Buildings.
 - (c) The property is subject to mortgage in favour of Bank of Communications Henan Branch.

No.	Property	Descriptions	Particulars of Occupancy	Market value as at 30 April 2010
3.	Southern Side of Guanggu Road, Dongzhuang Village, Guangwu Town Xinyang, Henan Province The PRC	<p>The property comprises two parcels of land (“the Lands”) with a total land area of approximately 52,419.55 square metres, 4 buildings (the “Buildings”) erected on the Land. The Buildings were completed in 2009.</p> <p>The total gross floor area of the Buildings is approximately 22,157.05 square metres. Detailed breakdown is shown as follows:</p>	The property is currently occupied by the Target Company as a production plant.	RMB36,800,000

Buildings	No. of Blocks	No. of Storeys	Gross Floor Area (sq.m.)
Factory	3	1	21,953.21
Ancillary	1	1	203.84
Total:	<u>4</u>		<u>22,157.05</u>

The property is held under two sets of State-owned Land Use Rights Certificates for a term expiring on 9 April 2059 for industrial use.

Notes:

- (i) According to two sets of State-owned Land Use Rights Certificate (Xing Guo Yong (2009) Nos. 0049 and 0050) issued by People's Government of Xingyang dated 14 May 2009, the land use rights of the Lands have been granted to the Target Company for a term expiring on 9 April 2059 for industrial use.
- (ii) According to two sets of Building Ownership Certificate (Xing Fang Quan Zheng Zi No. 0901005310 and 0901005311), the Buildings with a total gross floor area of 22,157.05 square metres are held by the Target Company .
- (iii) As at the valuation date, there was a parcel of land adjacent to the Lands (referred as "Defective Land"), with a land area of approximately 5,083.4 square metres, of which no State-owned Land Use Rights Certificate has been obtained. As advised by the Target Company, the Defective Land is currently occupied by the Target Company for industrial use and land grant procedures are in progress. As the Target Company has not obtained legal title to the Defective Land, we have attributed no commercial value to the Defective Land.
- (iv) As at the valuation date, there were erected on the Lands or the Defective Land 4 buildings (other than the Buildings), with a total gross floor area of approximately 8,234.93 square metres (referred to as the "Defective Buildings") being used as production workshop, office, canteen and guard room, of which no Building Ownership Certificates have been obtained. We have attributed no commercial value to the Defective Buildings. For reference purpose, assuming free of encumbrances, the depreciated replacement cost of the Defective Buildings as at the valuation date is approximately RMB10,100,000 which has been excluded from our valuation.
- (v) According to a Confirmation of Land Occupation by Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd. dated 5 January 2010 issued by Land Resources Bureau of Xingyang, the Target Company was allowed to use the Defective Land before obtaining of State-owned Land Use Rights Certificate and the land grant procedures are in progress.
- (vi) According to a Confirmation Letter dated 21 October 2009 issued by Planning Administration Bureau of Xingyang, the Defective Buildings mentioned in note (iv) are in consistent with the overall planning of Guangwu Town and the application of the Construction Planning Permit is in progress.
- (vii) According to a Confirmation Letter dated 18 October 2009 issued by Construction Administration Bureau of Xingyang, the Target Company was allowed to construct the Defective Buildings without Construction Commencement Permit and the Construction Commencement Permit can be applied afterward.
- (viii) According to a Confirmation of Property Occupation by Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd. dated 18 October 2009 issued by Real Estate Administration Bureau of Xingyang, the Target Company was allowed to occupy the Defective Buildings before obtaining of the Building Ownership Certificate, and the Building Ownership Certificate can be applied afterward.
- (ix) Opinions of the PRC Legal Advisor are summarized as follows:
 - (a) The Target Company has obtained 2 sets of State-owned Land Use Rights Certificate dated 14 May 2009 by which the land use rights of the Lands have been granted to the Target Company for industrial use with land use rights term expiring on 9 April 2059.
 - (b) The Target Company has obtained 2 sets of Building Ownership Certificate in respect of the Buildings.
 - (c) For the Defective Buildings, as the Target Company has obtained the relevant Confirmation Letters from Planning Administration Bureau of Xingyang, Construction Administration Bureau of Xingyang and Real Estate Administration Bureau of Xingyang, the possibility for the Target Company to be punished is low.
 - (d) According to the relevant mortgage contract and the Target Company's confirmation, the property is subject to mortgage in favour of Zhengzhou Nanyang Road Sub-branch of China Merchants Bank.

Group II – Property Interests rented by the Target Company in the PRC

No.	Property	Descriptions and Occupancy	Market value as at 30 April 2010
4.	Northern Side of Wutong Street, Western Side of Yinping Road South, High-tech Development Zone Zhengzhou, Henan Province The PRC	<p>The property comprises two parcels of lands (the “Lands”) with a total land area of approximately 11,597.92 square metres.</p> <p>The property is held by the Target Company under an oral tenancy agreement between 鄭州市高新區石佛辦事處 秦莊村村民委員會第五村民組 (No. 5 Group, Qinzhuang Village, Shifo Office, High-tech Development Zone, Zhengzhou) (“Qinzhuang”) as lessor and the Target Company as lessee.</p> <p>The tenancy is not assignable.</p> <p>The Target Company’s relocation from the property is in progress. As advised by the Target Company, the tenancy agreement of the property will be terminated after relocation.</p>	no commercial value

Notes:

- (i) As at the valuation date, the Target Company has built 2 buildings (the “Buildings”) on the Lands with a total gross floor area of approximately 11,307.25 square metres being used as factory and office of which neither Building Ownership Certificates nor Construction Land Use Planning Permits have been obtained. Due to uncertainties of legality and transferability, we have attributed no commercial value to these 2 buildings. For reference purpose, assuming free of encumbrances, the depreciated replacement cost of these 2 buildings as at the valuation date is approximately RMB17,400,000 which has been excluded from our valuation.
- (ii) According to a Transfer Agreement of Factory and Office Buildings dated 2 November 2009 and a Supplementary Agreement dated 17 March 2010 entered into between the Target Company and 焦作美泰科機械製造有限公司 (Jiaozuo Meitaike Machinery Manufacturing Co., Ltd, “Meitaike”), the buildings built by the Target Company with total gross floor area of 11,307.25 square meters was agreed to be transferred to Meitaike in the consideration of RMB12,200,000 and the Target Company will relocate from the property before 31 December 2010.
- (iii) As advised by the Target Company, the tenancy agreement of the property will be terminated after relocation.

- (iv) According to a Confirmation Letter issued by Management Committee of Zhengzhou Hi-tech Development Zone and a Confirmation Letter issued by Real Property Administration Bureau of Zhengzhou Hi-tech Development Zone both dated 16 March 2010, the Lands are allocated lands and the application of planning approval and construction commencement have not been proceeded. However, having considered that the Buildings have been transferred to Meitaike, Management Committee of Zhengzhou Hi-tech Development Zone and Real Property Administration Bureau of Zhengzhou Hi-tech Development Zone confirm that the Target Company will not bear any penalty or liability for the construction, use and transfer of the Buildings.

- (v) According to the Supplementary Agreement and Letter of Undertaking issued by Meitaike dated 16 March 2010, Meitake will be responsible for the compensation of all fees or losses arising from the construction, use and acquisition of the Buildings. If the Target Company is subject to any penalty or loss, Meitake is willing to compensate all the losses.

- (vi) Opinions of the PRC Lawyer is summarized as follows:
 - (a) The lease of the Lands with allocated land nature has not been approved by the relevant land administration authorities, thus Qinzhuang does not have the right to lease the Lands. However, based on the Confirmation Letter issued by Real Property Administration Bureau of Zhengzhou Hi-tech Development Zone, the Supplementary Agreement and Letter of Undertaking issued by Meitaike after the relocation, the Target Company should not bear any liabilities.

No.	Property	Descriptions and Occupancy	Market value as at 30 April 2010
5.	No. 5 Cargo Area, Zhengzhou Zhongchu Nanyangzhai Warehouse No. 9 Xinglongpu Road Zhengzhou, Henan Province The PRC	<p>The property comprises a parcel of land (the "Land") with a land area of approximately 26,555.05 square metres.</p> <p>The property is held by the Target Company under a tenancy agreement dated 3 June 2005 and a supplementary tenancy agreement dated 26 May 2006 between 鄭州中儲南陽寨倉庫 (Zhengzhou Zhongchu Nanyangzhai Warehouse) ("Nanyangzhai") as lessor and the Target Company as lessee for a term of 10 years from 1 June 2005 to 31 May 2015 at a yearly rent of RMB567,210 in the first year exclusive water and electricity charges, the rent has annual growth rate of 4% from the second year.</p> <p>The tenancy is not assignable.</p> <p>The Target Company's relocation from the property is in progress. As advised by the Target Company, the tenancy agreement of the property will be terminated after relocation.</p>	no commercial value

Notes:

- (i) As at the valuation date, the Target Company has built a building on the Land with a total gross floor area of approximately 9,778 square metres being used as factory, of which neither Building Ownership Certificates nor Construction Land Use Planning Permit have been obtained. Due to uncertainties of legality and transferability, we have attributed no commercial value to this building. For reference purpose, assuming free of encumbrances, the depreciated replacement cost of this building as at the valuation date is approximately RMB10,700,000 which has been excluded from our valuation.
- (ii) According to the tenancy agreement and the supplementary tenancy agreement, the property is leased to the Target Company. As lessor has obtained a State-owned Land Use Rights Certificate (Zheng Guo Yong (2009) Zi No. 0030) for the Land by which the land use rights was allocated to Nanyangzhai.
- (iii) According to a Factory Transfer Agreement dated 6 November 2009 and a Supplementary Agreement dated 17 March 2010 entered into between the Target Company and Nanyangzhai, the buildings built by the Target Company with gross floor area of 9,778 square meters was agreed to be transferred to Nanyangzhai in the consideration of RMB6,650,000 and the Target Company will relocate from the property before 31 December 2010.
- (iv) As advised by the Target Company, the tenancy agreement of the property will be terminated after relocation.

- (v) According to the Supplementary Agreement, Nanyangzhai will be responsible for the compensation of all fees or losses arising from the construction, use and acquisition of the factory building built by the Target Company. If the Target Company is subject to any penalty or loss, Nanyangzhai is willing to compensate all the losses. In case of demolition enforced by the government, all demolition subsidization will be possessed by Nanyangzhai.

- (vi) Opinions of the PRC Lawyer is summarized as follows:
 - (a) The lease of the Land with allocated Land nature has not been approved by the relevant land administration authorities, thus Nanyangzhai does not have the right to lease the Lands. However, based on the supplementary Agreement after the relocation, the Target Company should not bear any liabilities.

Group III – Property Interests rented by the Company in Hong Kong

No.	Property	Descriptions and Occupancy	Market value as at 30 April 2010
6.	9th Floor, Shun Ho Tower Nos. 24-30 Ice House Street Central, Hong Kong	<p data-bbox="352 442 915 506">The property comprises whole floor of office spaces within a 24-storey commercial building completed in 1987.</p> <p data-bbox="352 549 971 612">The internal floor area of the property is approximately 189 square meters (2,037 square feet).</p> <p data-bbox="352 655 971 783">The property is held by the Company under a tenancy agreement for a term of 2 years commencing from 24 April 2010 and expiring on 23 April 2012 at a monthly rent of HK\$54,999 exclusive of rates and service charge.</p> <p data-bbox="352 825 971 889">According to the tenancy agreement previous mentioned, the service charge is HK\$7,740.60 per month.</p> <p data-bbox="352 932 628 957">The tenancy is not assignable.</p> <p data-bbox="352 1000 855 1025">The property is occupied by the Company as an office.</p>	no commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles and of certain aspects of Cayman company law.

The Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on 26 May 2000 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 5 June 2001 and amended by special resolutions passed by the shareholders of the Company on 28 April 2004 and 27 April 2006 respectively. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such

determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which the remuneration is payable shall be entitled to rank in such division in proportion of remuneration related to the period during which he held office. Each Director shall be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries companies) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as mentioned in the preceding paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three (3), the number nearest to but not less than one-third), shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire by rotation in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed by the board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at the general meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2). There is no maximum number of Directors.

The office or director shall be vacated if the Director:

- (aa) resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;
- (bb) becomes of unsound mind or dies;

- (cc) without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six consecutive months, and the board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) is prohibited from being a director by law; or
- (ff) ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may unless otherwise provided for by the terms of issue of that class, from time to time (whether or not the Company is being wound up) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings of the Company shall, *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy (or, in the case of a member being a corporation by its duly authorised representative) not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting such holders, two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying (without prejudice to the power contained in the Articles to amend the same) the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of votes cast by such members as, being entitled so to do, vote in person or, in the case of any member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen (14) clear days' notice has been duly given.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by a representative duly authorised), or by proxy shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a clearing house (or its nominee(s)), being a corporation, is a member of the Company it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of the Company's incorporation (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles), if any) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditor's report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditor shall be appointed and the terms and tenure of such appointment and its duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to the auditors for the time being of the Company to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a member and to each of the directors of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditor and other documents required to be annexed to the balance sheet;
 - (cc) the election of directors whether by rotation or otherwise in place of those retiring;
 - (dd) the appointment of auditor and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditor; and
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the Company representing not more than 20 per cent in nominal value of its existing issued share capital.
- (j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve, either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees (which agreement may be on such terms and subject to such conditions as the board in its absolute discretion may from time to time determine, and which agreement the board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may from time to time declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on any class of the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof if the board so determines) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared, the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six (6) years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll, votes may be given either personally or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of twelve years; (ii) upon the expiry of the twelve year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated under the laws of the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arms'-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 25 July 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. RESPONSIBILITY STATEMENTS

This circular, for which the Directors (together with the Proposed Directors) collectively and individually accept full responsibility, includes particulars given in compliance with the Takeovers Code and the GEM Listing Rules for the purpose of giving information with regard to the Enlarged Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The directors of MML collectively and individually accept full responsibility for the accuracy of the information contained in this circular, other than that in relation to the Group. The directors of MML, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular, other than that in relation to the Group, is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular, other than those relating to the Group, misleading.

B. FURTHER INFORMATION ABOUT THE ENLARGED GROUP**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 26 May 2000. The Company has established a place of business at 9th Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong and were registered in Hong Kong as an overseas company under Part XI of the Hong Kong Companies Ordinance on 23 February 2001. Mr. Lee Jong-Dae of 6B South Bay Tower, 59 South Bay Road, Hong Kong has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company at the above address.

As the Company was incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and articles of association. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Cayman Islands company law is set out in Appendix V of this circular.

2. Changes in share capital of the Group

(a) *The Company*

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

	<i>No. of Shares</i>	<i>HK\$</i>
<i>Authorised:</i>		
As at the Latest Practicable Date	10,000,000,000	100,000,000.00
<i>Issued and fully paid:</i>		
As at 1 January 2008	384,000,000	3,840,000.00
As at 2 February 2009	398,724,000	3,987,240.00
As at 29 June 2009	399,112,000	3,991,120.00
As at 1 December 2009	399,562,581	3,995,625.81
As at 5 February 2010	400,706,581	4,007,065.81
As at the Latest Practicable Date	400,706,581	4,007,065.81

The entire issued share capital of the Company is listed on the GEM. No part of the share or loan capital of the Company is listed on any other stock exchange other than the Stock Exchange. The Shares are freely transferable.

(b) *Era Information & Entertainment (BVI) Limited (BVI)*

	<i>US\$</i>
<i>Issued share capital:</i>	
As at 1 January 2008	2,620
As at the Latest Practicable Date	2,620

(c) *Era Home Entertainment Limited (Hong Kong)*

	<i>HK\$</i>
<i>Issued share capital:</i>	
As at 1 January 2008	24,000,000
As at the Latest Practicable Date	24,000,000

(d) ***Era Films (HK) Limited (Hong Kong)***

HK\$

Issued share capital:

As at 1 January 2008	2
As at the Latest Practicable Date	2

(e) ***Era Digital Media Limited (Hong Kong)***

HK\$

Issued share capital:

As at 1 January 2008	10,000
As at the Latest Practicable Date	10,000

(f) ***Red River Agents Limited (Hong Kong)***

HK\$

Issued share capital:

As at 1 January 2008	2
As at the Latest Practicable Date	2

(g) ***Vasky Energy Ltd. (BVI)***

US\$

Issued share capital:

As at 1 January 2008	1
As at the Latest Practicable Date	1

(h) IFS Asia-Pacific Limited (Hong Kong)

HK\$

Issued share capital:

As at 1 January 2008	100,000
As at the Latest Practicable Date	100,000

On 1 May 2008, the Group acquired 100% of the issued share capital of IFS Asia-Pacific Limited for a consideration of HK\$400,000.

(i) Vasky Korea Inc. (South Korea)

KRW

Issued share capital:

As at 1 January 2008	200,000,000
As at the Latest Practicable Date	200,000,000

3. Changes in share capital of the Target Group**(a) The Target (Hong Kong)**

HK\$

Issued share capital:

As at 1 January 2008	10
As at the Latest Practicable Date	10

(b) Zhengzhou Siwei (PRC)

RMB

Registered capital:

As at 1 January 2008	80,936,950
As at the Latest Practicable Date	104,836,950

4. Changes in share capital of the Enlarged Group

Save as disclosed in this circular, no principal operating subsidiaries of the Enlarged Group have altered their capital within the two years immediately preceding the date of this circular.

5. Repurchase by the Company of its own securities

On 6 May 2010, the Shareholders passed an ordinary resolution to give a general mandate to the Directors to exercise all the powers of the Company to repurchase the Shares. The Company would be allowed under the resolution approving the repurchase mandate to repurchase not more than 10% of the aggregate nominal amount of the share capital of the Company in issue as at 6 May 2010.

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this circular concerning such repurchase.

(a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on the GEM to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the resolutions passed by the Shareholders on 6 May 2010, a general mandate was given to the Directors to exercise all powers of the Company to repurchase Shares (Shares which may be listed on GEM) with a total nominal value of not more than 10% of the aggregate nominal value of the Company's share capital in issue as at the date of passing the relevant resolution, which is 6 May 2010. Such repurchase mandate will expire at the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and (iii) the revocation or variation of the authority given under the relevant resolution by an ordinary resolution of the shareholders of the Company in general meeting.

(ii) *Source of funds*

Any repurchases of Shares by the Company must be paid out of funds legally available for the purpose in accordance with the Company's memorandum and articles of association, GEM Listing Rules and the Companies Law. The Company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The GEM Listing Rules provide that the Shares which are proposed to be repurchased by the Company must be fully-paid up.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and the Shareholders to seek a general authority from the Shareholders to enable the Company to repurchase the Shares on GEM, which may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

(c) *Funding of repurchases*

In repurchasing the Shares, the Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

(d) *General*

On the basis of the Company's current financial position as disclosed in this circular and taking into account the current working capital position, the Directors consider that, if the repurchase mandate is exercised in full, it might have a material adverse effect on the Company's working capital and/or gearing position as compared with the position disclosed in this circular. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse impact on the working capital requirements or the gearing levels of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules) currently intends to sell any Shares to the Company.

As at the Latest Practicable Date, no connected person (as defined in the GEM Listing Rules) has notified the Company that he/she has a present intention to sell Shares held by him/her to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers code as a consequence of any repurchases pursuant to the repurchase mandate.

The Company has not made any repurchases of its own securities in the past six months.

6. Intellectual Property Rights of the Enlarged Group

(a) Patents

As at the Latest Practicable Date, the Enlarged Group had registered the following patents:

Type	Registrant	Place of registration	Patent number	Valid Period
Utility Model	Zhengzhou Siwei	PRC	ZL200520031691.8	10 years from 31 August 2005
Utility Model	Zhengzhou Siwei	PRC	ZL200520031692.2	10 years from 31 August 2005
Utility Model	Zhengzhou Siwei	PRC	ZL200520031693.7	10 years from 31 August 2005
Utility Model	Zhengzhou Siwei	PRC	ZL200520031936.7	10 years from 21 September 2005
Utility Model	Zhengzhou Siwei	PRC	ZL200720090704.8	10 years from 14 June 2007
Utility Model	Zhengzhou Siwei	PRC	ZL200720090705.2	10 years from 14 June 2007
Utility Model	Zhengzhou Siwei	PRC	ZL200720090789.X	10 years from 22 June 2007
Utility Model	Zhengzhou Siwei	PRC	ZL200820070685.7	10 years from 26 May 2008
Utility Model	Zhengzhou Siwei	PRC	ZL200820070686.1	10 years from 26 May 2008

Type	Registrant	Place of registration	Patent number	Valid Period
Utility Model	Zhengzhou Siwei	PRC	ZL200820070687.6	10 years from 26 May 2008
Utility Model	Zhengzhou Siwei	PRC	ZL200820070688.0	10 years from 26 May 2008
Utility Model	Zhengzhou Siwei	PRC	ZL200820149626.9	10 years from 8 October 2008
Utility Model	Zhengzhou Siwei	PRC	ZL200820149624.X	10 years from 8 October 2008
Utility Model	Zhengzhou Siwei	PRC	ZL200820149625.4	10 years from 8 October 2008
Utility Model	Zhengzhou Siwei	PRC	ZL02228239.4	10 years from 23 January 2002
Utility Model	Zhengzhou Siwei	PRC	ZL200820230678.9	10 years from 9 December 2008
Utility Model	Zhengzhou Siwei	PRC	200820230677.4	10 years from 9 December 2008
Utility Model	Zhengzhou Siwei	PRC	200820230679.3	10 years from 9 December 2008
Utility Model	Zhengzhou Siwei	PRC	200820230680.6	10 years from 9 December 2008
Utility Model	Zhengzhou Siwei	PRC	200820230682.5	10 years from 9 December 2008
Utility Model	Zhengzhou Siwei	PRC	200820230681.0	10 years from 9 December 2008

As at the Latest Practicable Date, the Enlarged Group had applied for registration of the following patents:

Type	Applicant	Place of application	Application number	Application date
Utility Model	Zhengzhou Siwei	PRC	200810141563.7	8 October 2008
Utility Model	Zhengzhou Siwei	PRC	200910065604.3	30 July 2009
Utility Model	Zhengzhou Siwei	PRC	200910065616.6	31 July 2009
Utility Model	Zhengzhou Siwei	PRC	200920092114.8	31 July 2009
Utility Model	Zhengzhou Siwei	PRC	200910065617.0	31 July 2009
Utility Model	Zhengzhou Siwei	PRC	200920092112.9	31 July 2009
Utility Model	Zhengzhou Siwei	PRC	200910065618.5	31 July 2009
Utility Model	Zhengzhou Siwei	PRC	200920092122.2	31 July 2009
Utility Model	Zhengzhou Siwei	PRC	200920091454.9	13 July 2009
Utility Model	Zhengzhou Siwei	PRC	200910065422.6	13 July 2009
Utility Model	Zhengzhou Siwei	PRC	200920091453.4	13 July 2009
Utility Model	Zhengzhou Siwei	PRC	200920092463.X	18 August 2009

Type	Applicant	Place of application	Application number	Application date
Utility Model	Zhengzhou Siwei	PRC	200920092464.4	18 August 2009
Utility Model	Zhengzhou Siwei	PRC	200920092465.9	18 August 2009
Utility Model	Zhengzhou Siwei	PRC	200920092466.3	18 August 2009
Utility Model	Zhengzhou Siwei	PRC	200920092377.9	13 August 2009
Utility Model	Zhengzhou Siwei	PRC	200920092783.5	2 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920092782.0	2 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920092781.6	2 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920092784.X	2 September 2009
Utility Model	Zhengzhou Siwei	PRC	200910066028.4	2 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920092785.4	2 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920223728.5	24 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920223727.0	24 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920223726.6	24 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920223729.X	24 September 2009

Type	Applicant	Place of application	Application number	Application date
Utility Model	Zhengzhou Siwei	PRC	200920223731.7	24 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920223730.2	24 September 2009
Utility Model	Zhengzhou Siwei	PRC	200920223732.1	24 September 2009

(b) Domain Names

As at the Latest Practicable Date, the Enlarged Group has registered the following domain names:

Registrant	Domain Name	Expiry date
Zhengzhou Siwei	immsiwei.com	10 September 2010
Zhengzhou Siwei	immsiwei.com.cn	10 September 2010
Zhengzhou Siwei	immswei.com	4 January 2012
Zhengzhou Siwei	immswei.com.cn	4 January 2011
Zhengzhou Siwei	siwei-zz.com	14 September 2010
Zhengzhou Siwei	zzswjd.com	9 September 2010
Zhengzhou Siwei	zzswjd.com.cn	9 September 2010

C. FURTHER INFORMATION RELATING TO THE COMPANY AND THE WHITEWASH WAIVER**1. The Company**

As at the Latest Practicable Date:

- (a) the Company did not have any interests in any securities, shares, options, warrants, derivatives or convertible securities of the Vendor;
- (b) save as disclosed in the sub-section “Disclosure of Interests” in this Appendix, none of the Directors had any interests in the securities, shares, options, warrants, derivatives or convertible securities of the Company or the Vendor;
- (c) save as disclosed in the paragraph “The Sponsor” in this sub-section, none of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company nor advisers to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code but excluding persons enjoying exempt principal trader status under the Takeovers Code, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company;
- (d) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code;
- (e) there were no shareholdings in the Company which were managed on a discretionary basis by fund managers (other than fund managers enjoying exempt fund manager status) connected with the Company;

- (f) save as disclosed in the sub-section “Disclosure of Interests” in this Appendix, none of the Directors hold any Shares; and

- (g) none of the Directors or the Company had borrowed or lent any shares, warrants, options, convertible securities or derivatives of the Company or the Vendor.

2. The Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Division of the Stock Exchange for the listing of and permission to deal in the Consideration Shares, the Placing Shares and the Remuneration Shares. Somerley is the financial adviser to the Company in relation to the Proposed Transactions and acts as the sponsor to the Company’s deemed new listing application as a result of the Acquisition. For the purpose of the deemed new listing application of the Company, Somerley is considered as an independent sponsor pursuant to Rule 6A.07 of the GEM Listing Rules as elaborated below.

Having considered the financial position of the Company and to minimize further cash outlays, Somerley and its associates have been and will be issued Remuneration Shares to settle part of the professional fees charged by Somerley as a financial adviser to the Company regarding the Proposed Transactions pursuant to an engagement letter dated 25 May 2009 entered between the Company and Somerley. The Company shall pay a fee in cash in an amount of 3% of the value of the investment in the Company made by new investors introduced by Somerley. The 3% rate is determined by reference to the market commission rate for initial public offering and placing exercises.

As at the Latest Practicable Date, Somerley and its associates were interested in 838,581 Shares, representing approximately 0.21% of the entire share capital of the Company as a result of the above arrangement.

A total of 838,581 Remuneration Shares were issued to Somerley as at the Latest Practicable Date. An additional amount of US\$50,000 will be settled by the issue of the Remuneration Shares following the release of this circular approving, among other things, the Agreement, the Placing and the Whitewash Waiver at an issue price equivalent to the 30-day VWAP prior to the release of this circular. Further Remuneration Shares will be issued at HK\$0.291 each (which is equal to the issue price for the Consideration Shares) to Somerley to settle the success fee (payable on the commencement of trading of the Consideration Shares) of US\$100,000. It is estimated that 2,663,230 Remuneration Shares will be issued (subject to change in exchange rate and other adjustment(s)) in this regard. Such final batch of Remuneration Shares will be allotted and issued under a specific mandate to be sought by the Company at the EGM. Application will be/has been (as the case may be) made to the Listing Division of the Stock Exchange in respect of such listing of, and permission to deal in, the final batch of the Remuneration Shares.

The CorporActive Fund Limited (the “Fund”) may participate in the Placing to subscribe for certain Placing Shares. The Fund is an open-ended investment company incorporated in the Cayman Islands which commenced business in October 2007. The Fund is currently managed by Somerley Asset Management Limited (“Somerley Asset Management”) (a fellow subsidiary of Somerley and a licensed corporation under the SFO to carry out type 9 regulated activity (asset management)). The Fund’s shareholders comprise principally independent institutional and professional investors, the lead investor being a subsidiary of Lloyds Bank of the United Kingdom. Members of the management of Somerley Asset Management hold in aggregate approximately 23% of the beneficial interest in the Fund as of 31 May 2010. As at the Latest Practicable Date, the Fund has no interest in the securities of the Company.

If the Fund becomes one of the investors, it is submitted that this will not affect Somerley’s sponsor independence because:

- (1) The Fund is managed by Somerley Asset Management which is a separate licensed corporation under the SFO and regulated by SFC. There is a Chinese wall between Somerley and Somerley Asset Management;
- (2) Terms of the Placing will be arrived at after arm’s length negotiations between the Company and the placing agents(s) and/or the interested investors including the Fund;
- (3) The participation of the Placing by the Fund is in the ordinary and usual course of business of the Fund;

- (4) The investment by the Fund is for the benefit of the Fund's shareholders but not for the benefit of Somerley;
- (5) Neither Somerley or its parent hold beneficial interest in the Fund; and
- (6) The aggregate interest to be held by Somerley and the Fund immediately upon Completion, the issue of final batch of Remuneration Shares to Somerley and completion of the Placing but before full conversion of all outstanding convertible bonds of the Company will not be more than 5% of the enlarged issued share capital of the Company. This complies with the requirement as stipulated under Rule 6A.07(1) of the GEM Listing Rules.

The Sponsor confirmed that, save as disclosed in this circular, neither the Sponsor nor its associates had or will have, as a result of the Acquisition and the Whitewash Waiver, an interest in any class of securities of the Company, or any other company within the Group (including options or rights to subscribe for such securities).

Save as disclosed above, as at the Latest Practicable Date:

- (a) neither the Sponsor, nor any persons controlling, controlled by or under the same control as either of them owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company;
- (b) neither the Sponsor, nor any persons controlling, controlled by or under the same control as either of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities in the Company which may be an inducement to deal or refrain from dealing) with any persons; and
- (c) there was no agreement, arrangement or understanding between either the Sponsor or persons controlling, controlled by or under the same control as the Sponsor on the one part and any of the Directors or Shareholders on the other part, which was conditional on the outcome of or otherwise connected with or dependent upon the Agreement or the Whitewash Waiver.

The Sponsor has given and has not withdrawn its consent to the publication of its name in this circular.

3. Others

As at the Latest Practicable Date, none of Access Capital, or any person controlling, controlled by or under the same control as Access Capital, any bank, financial and professional advisers to the Company in relation to the Agreement and the Whitewash Waiver and any person controlling, controlled by or under the same control as such banks, financial and professional advisers, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company.

4. Dealings in securities

None of the Directors or the Company had dealt in any securities, shares, options, warrants, derivatives or convertible securities of the Vendor during the period between 22 March 2009, being six months prior to 21 September 2009, which is the date of the Announcement and the date of commencement of the offer period for the purpose of the Takeovers Code, and up to and including the Latest Practicable Date.

The previous beneficial owner of Arlington Group S.A., which held 12,000,000 Shares since 18 January 2008, transferred his beneficial ownership to Mr. Lee Jong-Dae, the chairman and a director of the Company, through Penryn Limited as the registered shareholder of Arlington Group S.A. on 3 August 2009. Through these steps, Mr. Lee Jong-Dae became the beneficial owner of Arlington Group S.A. on 3 August 2009.

Since 3 August 2009, Arlington Group S.A had the following on-market acquisitions of Shares on the date and at the prices stated:

Date of Acquisition	Number of Shares acquired	Average price per Share (HK\$)
9 September 2009	156,000	0.23
16 September 2009	200,000	0.226
28 September 2009	156,000	0.23

On 21 January 2010, Mr. Lee Jong-Dae disposed of his beneficial ownership in Arlington Group S.A. and no longer has interests in the Shares held by Arlington Group S.A.

Vasky Inc, which is beneficially owned by Mr. Lee Sung Min, a director of the Company, had the following on-market disposals of Shares on the date and at the prices stated:

Date of Disposal	Number of Shares disposed of	Average price per Share (HK\$)
5 January 2010	24,160,000	0.464
14 January 2010	11,000,000	0.51

Save as disclosed above, none of the Directors had dealt in any Shares or other securities, options, warrants, derivatives or convertible securities of the Company during the period between 22 March 2009, being six months prior to 21 September 2009, which is the date of the Announcement and the date of commencement of the offer period for the purpose of the Takeovers Code, and up to and including the Latest Practicable Date.

D. FURTHER INFORMATION RELATING TO THE VENDOR AND THE WHITEWASH WAIVER

1. Details of the Vendor

Set out below are details of the Vendor, and its director:

	Address	Director
The Vendor (<i>Note</i>)	c/o Citco (Maunitius) Limited 9th Floor, Medine Mews La Chanssee Street Port Louis, Mauritius	Mr. Williams

Note:

The ultimate beneficial shareholders of the Vendor as at the Latest Practicable Date were:

	Approximately % of shareholding in the Vendor
(1) Mr. Williams and his relatives	
Mr. Williams	5.63
James Schroeder, brother-in-law of Mr. Williams	8.67
Griffin Schroeder, nephew of Mr. Williams	0.79
Janet Schroeder, niece of Mr. Williams	0.20
Charles Schroedert, nephew of Mr. Williams	0.20
Carol Schroeder, sister of Mr. Williams	1.47
Bliss Browne, sister of Mr. Williams	1.47
Janet Harrison, sister of Mr. Williams	1.47
Nelle Temple-Brown, sister of Mr. Williams	1.47
	sub-total: 21.37
(2) Mr. Thompson, the son-in-law of Mr. Li Rubo	78.63
	100.00

2. Vendor's dealing and interest in securities of the Company

As at the Latest Practicable Date,

- (a) each of (i) Mr. Williams and (ii) Griffin Schroeder, a nephew of Mr. Williams, held 3,200,000 and 3,200,000 options, respectively, which confer them with rights to subscribe for 6,400,000 Shares in aggregate;
- (b) Power Castle Development Ltd., a company owned and managed by Mr. Williams on trust for and on behalf of his extended family members, held convertible bonds of the Company in the principal amount of HK\$7,175,000 with 1% coupon rate maturing on 29 September 2013 which can be converted into 20,500,000 Shares at an initial conversion price of HK\$0.35 per Share. Mr. Williams held approximately 21.7%, 54.4%, 21.7% and 2.2% of the entire interests in Power Castle Development Ltd. on trust for and on behalf of his extended family members, namely, Janet Harrison (sister of Mr. Williams), Carol Schroeder (sister of Mr. Williams), Griffin Schroeder (nephew of Mr. Williams) and Emory Williams Senior (father of Mr. Williams), respectively; and
- (c) Madam Liu Jie, the spouse of Mr. Williams, beneficially owned 7,742,284 Shares which were issued in February 2009 by the Company pursuant to a share subscription agreement.

None of the conversion rights of the aforesaid convertible bonds and options have been exercised as at the Latest Practicable Date.

The zero convertible bonds in an aggregate principal amount of HK\$2.8 million at an initial conversion price of HK\$0.2 per Share have not been issued to AIC and GFT as at the Latest Practicable Date. Such convertible bonds shall be issued by the Company to AIC and GFT upon completion of the acquisition of Key Target as detailed in the Company's announcements dated 21 April and 5 May 2009 and the Company's circular dated 25 May 2009.

3. Negative statements

As at the Latest Practicable Date,

- (a) save as disclosed above, neither the Vendor, its director nor any person acting in concert with them owned or controlled any shares or convertible securities, warrants, options or derivatives of the Company;
- (b) neither the Vendor, its director nor any person acting in concert with them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;
- (c) neither the Vendor, its director nor any person acting in concert with them has dealt for value in any shares or convertible securities, warrants, options and derivatives of the Company during the period between 22 March 2009, being six months prior to the date of the Announcement, and up to and including the Latest Practicable Date.
- (d) neither the Vendor, its director nor any person acting in concert with them has received an irrevocable commitment to vote for or against the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares), the Whitewash Waiver, and the proposed amendments to the memorandum and articles of association of the Company;
- (e) neither the Vendor, its director nor any person acting in concert with them had borrowed or lent any shares, warrants, options, convertible securities or derivatives of the Company and the Vendor;
- (f) there was no agreement, arrangement or understanding entered into by the Vendor or any person acting in concert with it for the transfer, charge or pledge of the Consideration Shares to any other persons; and
- (g) there was no legally binding agreement, arrangement or understanding (including any compensation arrangement) between any member of the Vendor or any person acting in concert with it, and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Acquisition and the Whitewash Waiver.

E. SHARE OPTION SCHEME

Pursuant to written resolutions of the shareholders of the Company dated 5 June 2001, the share option scheme (“**Share Option Scheme**”) was adopted by the Company with a purpose to recognise the contribution of certain Directors, employees, consultants and advisors of the Group to the growth of the Group and/or the listing of the Company’s shares on GEM on 28 June 2001.

Under the terms of the Share Option Scheme adopted by the Company, Directors are authorised, at their discretion, to invite any Directors and employees of the Group to take up options to subscribe for shares of the Company. The subscription price will be determined by the Directors, and will be equal to the higher of (i) the nominal value of the shares; (ii) the closing price per share of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of the grant of the option, which must be a business day; and (iii) the average of the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheet for the five trading days immediately preceding the date of the grant of the options.

Pursuant to an ordinary resolution passed by shareholders at annual general meeting held at 24 April 2008, in order to widen the scope of eligible participants under the Share Option Scheme, afford more flexibility for the Board in considering the grant of share options to the eligible participants under the Share Option Scheme, and to update certain terms of the Share Option Scheme to comply with the current requirements of the GEM Listing Rules, certain terms of the Share Option Scheme have been amended. Details of the amendments are set out in the Company’s circular dated 2 April 2008.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The Company may seek approval by the Company’s shareholders in general meeting for granting options beyond the 10% limit.

The total number of the shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the Shares in issue unless it is approved by the Shareholders in a general meeting of the Company. Any share options granted to a substantial Shareholder or an independent non-executive Director or to any of their respective associates, in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to Shareholders’ approval in a general meeting of the Company.

HK\$1 is payable as consideration for each offer of share option granted and options granted must be taken up within 28 days from date of grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing immediately after the date on which the options are deemed to be granted and accepted and expiring on a date to be determined and notified by the Directors to the grantee.

The Share Option Scheme became effective for a period of 10 years commencing on the adoption on 5 June 2001. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 12 June 2001.

F. DISCLOSURE OF INTERESTS

1. Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, the interests of the Directors and the chief executives of the Company in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which had to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

Interests in shares of the Company

Name of Directors	Nature of interest	Number of Shares held	Approximate percentage of issued share capital
Mr. Lee Sung Min	Corporate Interest	71,252,000	17.83%
Mr. Lee Jong-Dae	Corporate Interest	18,000,000	4.50%

Notes:

- The 71,252,000 ordinary shares in the Company owned by Mr. Lee Sung Min are beneficially owned by and registered in the name of Vasky Inc.
- The 18,000,000 ordinary shares in the Company owned by Mr. Lee Jong-Dae are beneficially owned by and registered in the name of Wah Hong Investment Limited.

Long positions in underlying shares of equity derivatives of the Company

Name of Director	Capacity	Number of Shares	Approximate percentage of issued share capital
Mr. Lee Jong-Dae	Beneficial Owner	share options to subscribe for shares (3,800,000 Shares) <i>(Note)</i>	0.95%
Mr. Lee Sung Min	Beneficial Owner	share options to subscribe for shares (900,000 Shares) <i>(Note)</i>	0.22%
Mr. Kim Beom Soo	Beneficial Owner	share options to subscribe for shares (900,000 Shares) <i>(Note)</i>	0.22%
Mr. David Marc Boulanger	Beneficial Owner	share options to subscribe for shares (900,000 Shares) <i>(Note)</i>	0.22%
Mr. Christopher John Parker	Beneficial Owner	share options to subscribe for shares (900,000 Shares) <i>(Note)</i>	0.22%
Mr. Chan Sze Hon	Beneficial Owner	share options to subscribe for shares (300,000 Shares) <i>(Note)</i>	0.08%

Note: The aforesaid share options are classified as “long position” under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

2. Substantial Shareholders' and other person's interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

Name of Shareholders	Capacity	Number of Shares held	Approximate percentage of issued share capital
Vasky Inc.	Beneficial owner	71,252,000	17.83%

Note: Vasky Inc. is wholly-owned by Mr. Lee Sung Min, an executive director of the Company.

Save as disclosed above, as at the Latest Practicable Date, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

G. ESTATE DUTY AND OTHER INDEMNITIES

Each of the Controlling Shareholders and Mr. Li Rubo (together, the “Indemnifiers”) has entered into the Deed of Indemnity referred to in sub-paragraph (z) of the paragraph headed “Summary of the material contracts” in this Appendix in favour of the Purchaser for itself and as trustee for its current and future affiliates, the respective officers, directors, employees, agents, attorneys, accountants, advisors and representatives of such entities and the respective successors and assigns of such entities, including but not limited to each of the members of the Enlarged Group (the “Indemnified Parties”).

Under the Deed of Indemnity, the Indemnifiers have given indemnities to the Enlarged Group on a joint and several basis in respect of, among other matters:

- (i) any liability for Hong Kong estate duty which might be incurred by any member of the Enlarged Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Enlarged Group on or before the date of Completion;
- (ii) taxation which might be payable by any member of the Enlarged Group in respect of any income, profits or gains of the Target Group earned, accrued or received on or before the date of the Completion;
- (iii) all damages, losses, expenses and liabilities, including relocation costs and expenses (if any), which are or become payable or incurred by any members of the Enlarged Group, as a result of, relating to, arising from or in connection with any title defects of the properties owned, leased or otherwise used by the Enlarged Group;
- (iv) all damages, losses, expenses and liabilities, which are or become payable or incurred by any members of the Enlarged Group, as a result of, relating to, arising from or in connection with all activities and operations (business or otherwise) of the Target Group conducted before the Completion, including the potential penalties that the relevant authorities may impose on the Target Group as a result of non-compliance in social insurance and housing fund registration.

In addition, under the Deed of indemnity, the Vendor, Mr. Emory Williams and Mr. Li Rubo have jointly and severally undertaken to indemnify and keep indemnified each of the Indemnified Parties against any and all damages losses, expenses and liabilities which may arise as a result of, relating to or in connection with the Acquisition.

The Indemnifiers have also given indemnities to the Enlarged Group on a joint and several basis for any and all of losses, expenses, liabilities or other damages to the extent of the actual amount of such losses, expenses, liabilities or other damages (“Damages”), falling on any and all of the Indemnified Parties, as a result of which the Indemnified Parties, or any of them, become liable to pay such damages:

- (a) incurred by or attributable to the Indemnifiers as a shareholder or beneficial owner of the Target Group;
- (b) incurred by or attributable to the Indemnifiers in connection with the management of the business and affairs of the Target Group, except for damages due to negligence or wrongdoings by the Target Group following the Completion; or
- (c) incurred by any of the Indemnified Parties in connection with:
 - (i) the investigation, assessment or the contesting of any of the foregoing Damages;
 - (ii) the settlement of any claim for any of the foregoing Damages;
 - (iii) any legal proceedings in which any of the Indemnified Parties claims under or in respect of this deed of indemnity and in which judgment is given in favour of any of the Indemnified Parties; or
 - (iv) the enforcement of any such settlement or judgment referred to in subparagraphs (c)(ii) and (c)(iii) above.

H. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the calendar month during the period commencing from 22 March 2009, being six months immediately preceding the date of the Announcement and ending on the Latest Practicable Date; (ii) 8 October 2009, being the last full trading day prior to the suspension of trading in the Shares pending the issue of the Announcement; and (iii) 28 June 2010, the Latest Practicable Date.

	Closing price of Shares HK\$
31 March 2009	0.095
30 April 2009	0.120
29 May 2009	0.200
30 June 2009	0.200
31 July 2009	0.240
31 August 2009	0.255
30 September 2009	0.250
8 October 2009	0.233
30 October 2009	suspended
30 November 2009	0.380
31 December 2009	0.450
29 January 2010	0.590
26 February 2010	0.690
31 March 2010	0.680
30 April 2010	0.700
31 May 2010	0.700
As at the Latest Practicable Date	0.660

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period between 22 March 2009, being the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date, were HK\$0.95 on 23 November 2009 and HK\$0.09 on 6 to 8 April 2009, respectively.

I. FURTHER INFORMATION ABOUT THE DIRECTORS**1. Directors' service contracts**

Mr. Lee Jong-Dae has entered into a service agreement with the Company for a term of one year commencing from 27 July 2007, which was superseded by a service agreement between Mr. Lee Jong-Dae and the Company dated 1 August 2008 for a term of one year commencing from 1 August 2008. No fixed or variable remuneration was provided for Mr. Lee under his service agreement dated 27 July 2007. The fixed remuneration (excluding pension payments) payable by the Company to Mr. Lee Jong-Dae under the service agreements dated 1 August 2008 was HK\$90,000 per month with a gratuity payment payable on or before the Chinese New Year's eve of each year equal to the amount of the then monthly salary of Mr. Lee Jong-Dae. There is no variable remuneration under these service agreements.

Each of Mr. Lee Sung Min and Mr. Kim Beom Soo has entered into a service agreement with the Company for a term of one year commencing from 27 July 2007. No fixed or variable remuneration were provided for Mr. Lee and Mr. Kim under these service agreements.

All of the executive Directors' service contracts will automatically continue after their respective expiry terms until terminated by either party giving not less than three months' notice in writing.

Mr. Chan Sze Hon has entered into a service agreement with the Company dated 25 February 2008 for a term of one year commencing from 25 February 2008, automatically renewal on a yearly basis until terminated by either party giving not less than three months' notice in writing. The fixed remuneration (excluding pension payments) payable by the Company to Mr. Chan Sze Hon under this service agreement was HK\$10,000 per month, with a gratuity payment payable on or before the Chinese New Year's eve of each year equal to the amount of the then monthly salary of Mr. Chan Sze Hon. There is no variable remuneration under this service agreement.

Each of Mr. Christopher John Parker and Mr. David Marc Boulanger has entered into a service agreement with the Company for a term of one year commencing from 17 August 2007, automatically renewal on a yearly basis until terminated by either party giving not less than three months' notice in writing. There is no fixed or variable remuneration under these service agreements. All of them are subject to retirement by rotation in accordance with the Company's articles of association.

Saved as disclosed above, (a) there was no service contract, letter of appointment or service agreement for Directors with the Group, which has been entered into or amended within six month before the date of the Announcement, (b) is a continuous contract with a notice of 12 months or more, and (c) is a fixed term contract with more than 12 months to run irrespective of the notice period.

Each of Mr. Williams and Mr. Li Rubo will, upon Completion on the date of Completion, enter into a service agreement with the Company for a term of one year commencing from the date of Completion.

Save as disclosed above, none of the Directors has any existing or proposed service contract with any member of the Enlarged Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

2. Directors' remuneration

The Company's policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Company; and (ii) non-cash benefits may be provided to the Directors under their remuneration package.

For three years ended 31 December 2007, 2008 and 2009, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Company and its subsidiaries was approximately HK\$2,461,000, HK\$1,130,000 and HK\$1,799,000, respectively.

Save as disclosed in this circular, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2007, 2008 and 2009 by the Company to the Directors.

Under the arrangements currently in force, the Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, the Directors (excluding discretionary bonus) by the Company for the year ending 31 December 2010 will be approximately HK\$3,060,000.

The sole director of the Target, Mr. Williams, did not receive directors' fees or emoluments from the Target Group during the Track Record Period. The aggregate amount of remuneration, which consists of remuneration for directors' services to Target Group for the three years ended 31 December 2007, 2008 and 2009, were RMB1,082,000, RMB1,188,000 and RMB1,255,000, respectively.

3. Directors' interests in contracts

No contract or arrangement in which any of the Directors had a material interest and which is significant in relation to the business of the Enlarged Group subsisted as at the Latest Practicable Date.

4. Directors' interests in competing business

None of the existing and proposed Directors and their respective associates was interested in any business apart from the business of the Enlarged Group, which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

5. Arrangements affecting the Directors

None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Acquisition and Whitewash Waiver, and there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Acquisition and Whitewash Waiver or otherwise connected with the Acquisition and Whitewash Waiver.

As at the Latest Practicable Date, there was no material contract entered into by the Vendor in which any of the Directors had a material personal interest.

6. Intention of the Director

As at the Latest Practicable Date, save for Mr. Lee Sung Min and Mr. Lee Jong-Dae, none of the Directors owned any Shares. Mr. Lee Jong-Dae is required to abstain from voting regarding on the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares) and the Whitewash Waiver at the EGM. It is the intention of Mr. Lee Sung Min to vote for the resolutions in respect of the Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares) and the Whitewash Waiver at the EGM.

J. SENIOR MANAGEMENT'S REMUNERATION

The remuneration of senior management of the Company is determined by the remuneration committee of the Company, which evaluates the performance of the senior management and makes recommendations on, among other matters, their remuneration packages.

K. FEES OR COMMISSIONS RECEIVED

Save as disclosed in this circular, none of the Directors or any of the persons whose names are listed in the sub-section "Consents of experts" in this Appendix had received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any capital of any member of the Group, from the Group, within the two years preceding the date of this circular.

L. DISCLAIMERS

Save as disclosed in this circular:

- (a) none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code;
- (b) none of the Directors, the Proposed Directors nor any of the persons whose names are listed in the sub-section headed “Consents of Experts” in this Appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this circular been 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;
- (c) none of the Directors nor any of the persons whose names are listed in the sub-section headed “Consents of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group;
- (d) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (e) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this circular to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the introduction or related transaction as mentioned in this circular.

M. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group or the Target Group or any of the Directors and directors of the Target Group, that would have a material adverse effect on the Group's results of operations or financial condition.

N. PRELIMINARY EXPENSES

The Company's preliminary expenses were US\$2,000 and were paid by the Company.

O. SUMMARY OF THE MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or its subsidiaries or members of the Target Group within the two years preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

- (a) a placing agreement ("Placing Agreement") dated 20 November 2007 entered into between the Company and Baron Capital Limited ("Baron") whereby Baron agreed to place up to 64,000,000 new shares of the Company at a price of HK\$0.41 per Share for a consideration of 2% of the gross amount raised from the placing;
- (b) a term sheet dated 21 December 2007 entered into between Vasky Energy Ltd. and Dean Management Limited ("DML") in relation to the acquisition of 25% equity interest of Tusunchovan Kebar Joint Venture Company Limited from DML for a consideration between US\$2.5 million to US\$5 million (subject to valuation, due diligence and negotiation);
- (c) a promissory note ("Note") dated 19 December 2007 made by the Target and IMM whereby IMM has agreed to make available to the Target a loan facility of US\$10,193,000 upon the terms and conditions set out therein;
- (d) a share pledge agreement dated 19 December 2007 ("Pledge Agreement") made by MML and IMM whereby MML has agreed to grant security and assurance to IMM in order to secure, among other things, the payment of the principal of and interest on the Note by pledging to IMM the shares held by MML of the Target;

- (e) a debenture dated 2 April 2008 (“Debenture”) entered into between the Target and IMM whereby the Target charges to IMM by way of first floating charge all the undertaking, property, assets and rights of the Target in consideration of IMM agreeing to make available to the Target a loan facility of up to US\$10,193,000;
- (f) an amended term sheet dated 29 April 2008 (“DML First Amended Term Sheet”) entered into between the Company and DML to supplement a non-legally binding memorandum of understanding dated 21 December 2007 (“DML MOU”) entered into between the Company and DML in relation to the Company’s possible acquisition of 25% equity interest of a company established in Mongolia (“Mongolian company”) from DML for a consideration of between US\$2.5 million to US\$5 million (subject to valuation, due diligence and negotiation). Pursuant to the DML First Amended Term Sheet, an option was granted to the Company to purchase additional 26% equity interest of a company established in Mongolia for additional consideration between US\$2.5 million to US\$5 million (subject to valuation, due diligence and negotiation) and the closing date of the acquisition of the Mongolian company was extended from 30 April 2008 to 31 July 2008 or such other date as may be mutually agreed by the Company and DML;
- (g) a subscription agreement dated 1 May 2008 entered into among the Company, Integrated Financial Holdings Limited and Orient Passage Limited for the subscription of convertible bonds issued by the Company in an aggregate principal amount of HK\$400,000 at an initial conversion price of HK\$0.5 per Share.
- (h) a promissory note (“Note (Working Capital)”) dated 13 June 2008 made by the Target and IMM whereby IMM has agreed to make available to the Target a loan facility of US\$7,200,000 upon the terms and conditions set out in the Pledge Agreement, Debenture and therein;
- (i) a supplemental deed dated 13 June 2008 entered into between the Target and IMM to extend the security under the Debenture to cover the obligations of the Target under the Note and the Note (Working Capital) in consideration of IMM agreeing to make available to the Target a loan facility of US\$7,200,000 under the Note (Working Capital);

- (j) a non-legally binding memorandum of understanding dated 7 July 2008 (“SRL MOU”) entered into between the Company and Sakhalin Resources Ltd. (“SRL”) in relation to the Company’s possible acquisition of the entire equity interest in GFT (Far East) Holding Limited (“GFT FE”) from SRL for a consideration of the Hong Kong dollar equivalent of RMB100 million in convertible bonds (subject to additional payment based on the performance of GFT FE, its wholly-owned subsidiary incorporated in Cyprus and its indirect wholly-owned Russian subsidiary, which owns certain coal mining operations in Sakhalin, Russia in calendar year 2011, valuation, due diligence and negotiation);
- (k) a subscription agreement dated 11 July 2008 entered into between the Company and JDFM Investments Limited and subscription agreements dated 14 July 2008 entered into between the Company and each of Ancient Castle Group Limited, Power Castle Development Ltd., Girvan Holdings Ltd. and Pacific Pride Limited for the subscription of convertible bonds issued by the Company in an aggregate principal amount of HK\$21,726,600 convertible into the Shares at the initial conversion price of HK\$0.35 per Share (subject to adjustments);
- (l) a second amended term sheet dated 30 July 2008 entered into between the Company and DML to supplement the DML MOU and the DML First Amended Term Sheet whereby the closing date of the acquisition of the Mongolian company was extended from 31 July 2008 to 31 December 2008 or such other date as may be mutually agreed by the Company and DML at nil consideration;
- (m) a legally binding amended term sheet dated 21 August 2008 entered into between the Company and GFT FE (which replaced SRL as vendor due to their restructuring) to supplement the SRL MOU whereby the Company will advance a deposit of US\$1,880,000 in full by cash to SRL on or after 22 August 2008 in consideration of an exclusive right in the possible acquisition of GFT FE granted by SRL to the Company and assistance from SRL and GFT FE group companies on their due diligence;
- (n) a letter of acknowledgement and agreement (“Letter”) dated 1 December 2008 between GFT and Company concerning certain deposit arrangements in relation to the Company’s purchase from GFT of 100% equity interest in Adventio Investment Limited;
- (o) subscription agreements dated 29 December 2008 entered into between the Company and each of Madam Xiu Li Min, Madam Liu Jie, and Ancient Castle Group Limited for the aggregate subscription of 14,724,000 Shares at an aggregate consideration of HK\$1,766,880;

- (p) an amendment to the Letter dated 19 March 2009 entered into between the Company and GFT FE in relation to the extension of the date of closing of the possible acquisition of GFT FE group companies to 31 December 2009 or such later date as may be agreed by the parties to the Letter;
- (q) a conditional sale and purchase agreement dated 16 April 2009 (“**Vasky Agreement**”) entered into between AIC, GFT and Vasky Energy Ltd. relating to the sale and purchase of the entire equity interest in Key Target for a consideration of HK\$2.8 million;
- (r) a subscription agreement dated 16 April 2009 entered into between the Company as issuer and AIC and GFT as subscribers of certain convertible bonds as a condition precedent of the completion of Vasky Agreement;
- (s) an agreement dated 26 August 2009 entered into between the Target and Zhengzhou Siwei whereby the Target agreed to inject RMB23,900,000 as registered capital of Zhengzhou Siwei by way of shareholder’s loan in the amount of US\$3.5 million;
- (t) a non-binding memorandum of understanding dated 21 September 2009 entered into between the Company and MML in relation to the potential acquisition by the Company of the Target;
- (u) an amended share purchase agreement dated 30 September 2009 entered into between AIC, GFT and Vasky Energy Ltd. to supplement the Vasky Agreement whereby the date for fulfilling the conditions of the Vasky Agreement was extended to on or before 31 December 2009 or such later date as may be agreed by the parties to the Vasky Agreement at nil consideration;
- (v) a conditional sale and purchase agreement dated 9 October 2009 entered into between the Vendor and the Purchaser relating to the sale and purchase of the entire issued capital of the Target owned by the Vendor before Completion for a consideration of HK\$1,164 million;
- (w) a second amending agreement dated 31 December 2009 to the share purchase agreement dated 16 April 2009 entered into between AIC, GFT and Vasky Energy Ltd. to supplement Vasky Agreement whereby the date for fulfilling the conditions of the Vasky Agreement was extended to no later than 30 June 2010 or such later date as may be agreed by the parties to the Vasky Agreement at nil consideration;

- (x) a second amendment to the Letter dated 31 December 2009 entered into between the Company and GFT FE to supercede the amendment to the Letter dated 19 March 2009 whereby the date of closing of the possible acquisition of GFT FE group companies was extended to 30 June 2010 or such later date as may be agreed by the parties to the Letter;
- (y) a supplemental deed dated 31 March 2010 entered into between the Vendor and the Purchaser whereby certain terms of the Agreement have been amended at nil consideration;
- (z) the Deed of Indemnity; and
- (aa) the Deed of Non-completion.

Q. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Access Capital Limited	Licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
RSM Nelson Wheeler	Certified public accountants
Commerce and Finance Law Offices	PRC legal advisers to the Company
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Greater China Appraisal Limited	Independent professional surveyors and valuers
Wilmer Cutler Pickering Hale and Dorr LLP	Legal advisers to the Company as to New York law

R. CONSENTS OF EXPERTS

Each of Access Capital Limited, RSM Nelson Wheeler, Commerce and Finance Law Offices, Conyers Dill & Pearman and Greater China Appraisal Limited and Wilmer Cutler Pickering Hale and Dorr LLP, has given and has not withdrawn their respective consent to the issue of this circular with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

S. MISCELLANEOUS

Save as disclosed in this circular:

- (i) within the two years preceding the date of this circular:
 - (a) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (c) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group.
- (ii) none of the persons whose names are listed in the sub-section “Consents of Experts” in this Appendix had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

- (iii) neither the Company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (iv) there had not been any interruption in the business of the Group which may have had a significant effect on the financial position of the Group in the 24 months preceding the date of this circular;
- (v) all necessary arrangements had been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS;
- (vi) the Directors were not aware of any person who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries; and
- (vii) none of the Company's equity or debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

The English texts of this circular and accompanying form of proxy shall prevail over the Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the Company's website at www.eraholdings.com.hk and on the SFC's website at www.sfc.hk. The documents are also available for inspection at the office of the Company at 9th Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong during 9:30 a.m. to 5:30 p.m., Monday to Friday (other than public holidays) from the date of this circular up to and including the date of the EGM:

- (a) the Memorandum and the Articles;
- (b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (d) the letter of advice from Access Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;
- (e) the annual reports of the Company for each of the three years ended 31 December 2009 and the quarterly report of the Company for the three months ended 31 March 2010;
- (f) the accountants' reports on the Target Group prepared by RSM Nelson Wheeler, the text of which are set out in Appendix I to this circular;
- (g) the report from RSM Nelson Wheeler relating to the unaudited pro forma financial information of the Enlarged Group, the text of which are set out in Appendix III to this circular;
- (h) the letter, summary of valuation and valuation certificates relating to the values of property interests of the Enlarged Group prepared by Greater China Appraisal Limited, the texts of which are set out in Appendix IV to this circular;

- (i) the letter summarising certain aspects of Cayman Islands company law prepared by Conyers Dill & Pearman referred to in Appendix V to this circular;
- (j) the material contracts referred to in the sub-section headed “Summary of the material contracts” in Appendix VI to this circular;
- (k) the written consents referred to in the sub-section headed “Consent of experts” in Appendix VI to this circular and written consent from Somerley; and
- (l) the Directors’ service contracts referred to in the sub-section headed “Directors’ service contracts” in Appendix VI to this circular.

ARTICLES OF ASSOCIATION**(a) Cover**

The Chinese name of the Company is inserted to reflect the Company's current Chinese name.

(b) Interpretation

- (i) A new definition of "business days" has been introduced to comply with the rules of the designated stock exchange;
- (ii) The definition of "clearing house" has been amended to comply with the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong);
- (iii) The definition of "Company" has been amended to reflect the Company's current name;
- (iv) The definition of "ordinary resolution" has been amended such that, along with the requirement of not less than fourteen (14) clear days' notice, not less than ten (10) clear business days' notice shall be given for the passing of an ordinary resolution;
- (v) The definition of "special resolution" has been amended such that, along with the requirement of not less than twenty-one (21) clear days' notice, not less than ten (10) clear business days' notice shall be given for the passing of a special resolution;
- (vi) The definition of "Subsidiary and Holding Company" has been amended to align with the meanings defined in the GEM Listing Rules;
- (vii) The expressions in the new Articles of Association referring to writing has been expanded to expressly include electronic display; and
- (viii) A new article 2(h) has been introduced to provide an interpretation for references to a document being executed and to a notice or document in the new Articles of Association.
- (ix) A new article 2(i) has been introduced to provide the extent Section 8 of the Election Transactions Law (2003) of the Cayman Islands applies to the Articles.

(c) Share capital

- (i) Article 3(2) has been amended to expressly provide that the Company is authorised to make payments in respect of the purchase of its shares out of capital or any other account or fund which can be authorised for such purpose.
- (ii) Article 3(3) has been amended to expressly provide that the Company is authorised to give financial assistance relating to purchase of shares in the Company provided it is in compliance with the rules and regulations of the Designated Stock Exchange.

(d) Share Capital

Article 6 has been amended to expressly exclude any share premium account from reduction by special resolution.

(e) Variation of rights

- (i) Article 10(a) has been amended to expressly include duly authorised representative of a member being a corporation to be counted in the quorum; and
- (ii) Article 10(c) has been removed to conform with the amendments made to article 66.

(f) Shares

Article 12(2) has been amended to expressly provide that the Board may issue convertible securities or securities of similar nature to subscribe for any class of shares or securities in the capital of the Company.

(g) Share certificates

Article 16 has been amended to also allow share certificate be issued with the seal of the Company printed thereon.

(h) Register of members

Article 44 is amended to expressly provide that the inspection fee payable by persons other than members (who are entitled to inspect without charge) shall also be amended and be capped at HK\$2.50 or such lesser sum as the Board may specify and the place of inspection shall be at such place as which the register of members is kept or if appropriate, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board at the registration office of the Company.

(i) Transfer of Shares

Article 51 is amended to expressly provide that the notice for suspension of registration of transfers of shares or of any class of shares may be served by any means in accordance with the requirements of the designated stock exchange and the previous requirement to publish a notice in an appointed newspaper is removed.

(j) Notice of general meetings

- (i) Article 59(1) is amended such that, along with the requirement of notice of not less than twenty-one (21) clear days' notice, not less than twenty (20) clear business days' notice shall be given for convening the annual general meeting and, along with the requirement of notice of not less than twenty-one (21) clear days' notice, not less than ten (10) clear business days' notice shall be given for convening an extraordinary general meeting at which the passing of a special resolution is to be considered, and or all other extraordinary general meetings, notice of not less than ten (10) clear business days' notice and not less than fourteen (14) clear days' notice shall be given for convening all other extraordinary general meetings unless permitted otherwise by the rules of the designated stock exchange.
- (ii) Article 59(2) has been amended to align with the GEM Listing Rules.

(k) Proceedings at general meetings

- (i) Article 61(1)(g) is added to expressly provide that the granting of any mandate or authority to the Directors to repurchase securities of the Company shall not be deemed special business if transacted at an extraordinary general meeting or annual general meeting.
- (ii) Article 63 has been amended to expressly allow duly authorised representative of a member being a corporation to elect one of their number to be chairman.

(l) Voting

- (i) Article 66 has been amended so that voting by way of show of hands is no longer permitted. All resolutions put to the vote of a meeting shall be decided by way of a poll. Consequently, articles 67, 69 and 70 of the existing Articles of Association all relating to demand for a poll have been removed;
- (ii) Article 68 is amended to expressly provide that the Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the designated stock exchange;
- (iii) Articles 73 and 75 are amended to delete references relating to voting by show of hands; and
- (iv) Article 76(2) is amended to align with the GEM Listing Rules.

(m) Proxies

Articles 80, 81 and 82 are amended to delete references relating to demand for a poll.

(n) Corporation acting by representatives

Article 84(2) is amended to provide that if a clearing house (or its nominee(s)), being a corporation, is a member, authorise more than one person to be its representatives at any meeting of the Company or at any meeting of any class of members, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised and each person so authorised shall be deemed to have been duly authorised without further evidence of the facts, and references relating to the right to vote on a show of hands were removed.

(o) Board of Directors

- (i) Article 86(1) is amended to allow the Directors to hold office, in addition to such time until their successors are elected or appointed, for such term as the members of the Company may determine or, in the absence of such determination, in accordance with the articles relating to retirement by rotation under the Articles of Association or until their successors are elected or appointed or their office is otherwise vacated; and

- (ii) Article 86(3) is amended to the effect that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members (instead of until the first annual general meeting under the existing Articles of Association) after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company.

(p) Retirement of Directors

- (i) Article 87(1) is amended to expressly provide that every Director shall be subject to retirement at an annual general meeting at least once every three years; and
- (ii) Article 87(2) is amended to conform with the amendments made to articles 86(3).
- (iii) Article 88 is amended to align with the GEM Listing Rules.

(q) Disqualification of Directors

Article 89(1) has been amended to expressly provide that a Director who resigns his office by notice in writing delivered to the Company or tendered at a meeting of the Board shall vacate his office without the Board to resolve to accept such resignation.

(r) General powers of the Directors

Article 104(4)(iii) is amended to state that, except as would, if the Company were a company incorporated in Hong Kong, be permitted by Section 157H of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force at the date of the adoption of the new Articles of Association, and except as permitted under the law, the Company shall not, directly or indirectly if any one or more of the directors held (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(s) Proceedings of the Directors

Article 115 is amended to allow notice of a meeting of the Board be given verbally (including in person or by telephone) or via electronic mail or by telephone.

(t) Seal

Article 133(1) is amended to allow any instrument to which a Seal is affixed to be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature.

(u) Reserves

Article 146(1) is amended to allow the Board to apply the share premium account in any manner permitted by the Law.

(v) Accounting records

- (i) The new article 152A is introduced to provide deemed satisfaction of article 152 by sending to the persons who are entitled to receive the financial statements of the Company at the end of the relevant financial year in any manner not prohibited by the laws of Cayman Islands or the rules of the designated stock exchange summarized financial statements derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations; and
- (ii) The new article 152B is introduced to provide deemed satisfaction of the requirements under article 152 and article 152A to send to the persons who are entitled to receive summary financial statements of the Company at the end of the relevant financial year by publishing such documents of the Company on the Company's computer network.

(w) Audit

- (i) Article 153(1) is amended to allow auditors to hold office until the next annual general meeting;
- (ii) Article 153(2) has been deleted to remove the requirement to give notice of intention to nominate a person, other than a retiring auditor, to the office of auditor at an annual general meeting; and
- (iii) Article 156 is amended to allow the Directors (instead of being required to convene an extraordinary general meeting under the existing Articles of Association) to fill the vacancy arising from, inter alia, the resignation or death of the auditor and fix the remuneration of the auditors so appointed.

(x) Notices

- (i) Article 159 is amended such that the Company may send corporate communication to a member by placing it on the Company's website or the website of the designated stock exchange;
- (ii) Article 160(b) is inserted to allow notices sent by electronic communication to be deemed to be given on the day on which it is transmitted from the server of the Company or its agent and a notice placed on the Company's website or the website of the designated stock exchange, is deemed given by the Company to a member on the day following that on which a notice of availability is deemed served on the member; and
- (iii) Article 160(d) is inserted to allow the Company to serve notice either in the English language or the Chinese language.

This appendix sets out the full text of the proposed amendments to the Articles. Unless otherwise specified, capitalised terms used herein shall have the same meanings as they are defined in the Articles.

COVER PAGE

By inserting “年代國際控股有限公司” after “ERA Holdings Global Limited”

ARTICLE 2(1)

- (i) By inserting the following definition after the definition of “Board” or “Directors” in Article 2(1):

““business day” shall mean a day on which the Designated Stock Exchange generally is open for the business of dealing in securities in Hong Kong. For the avoidance of doubt, where the Designated Stock Exchange is closed for the business of dealing in securities in Hong Kong on a business day by reason of a Number 8 or higher typhoon signal, black rainstorm warning or other similar event, such day shall for the purposes of these Articles be counted as a business day.”

- (ii) The existing definition of “clearing house” in Article 2(1) provides as follows:

“a recognised clearing house within the meaning of Section 2 of the Securities and Futures (Clearing Houses) Ordinance of Hong Kong or a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction.”

It is proposed that the existing definition of “clearing house” in Article 2(1) be amended as follows:

“a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction.”

- (iii) The existing definition of “Company” in Article 2(1) provides as follows:

“Era Information & Entertainment Limited.”

It is proposed that the existing definition of “Company” in Article 2(1) be amended as follows:

“ERA Holdings Global Limited 年代國際控股有限公司。”

- (iv) The existing definition of “Ordinary resolution” in Article 2(1) provides as follows:

“a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen (14) clear days’ Notice has been duly given;”

It is proposed that the existing definition of “ordinary resolution” in Article 2(1) be amended as follows:

“a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which Notice has been duly given in accordance with Article 59.”

- (v) The existing definition of “special resolution” in Article 2(1) provides as follows:

“a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such Members as, being entitled so to do, vote in person or, in the case of such Members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days’ Notice, specifying (without prejudice to the power contained in these Articles to amend the same) the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in

number of the Members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and in the case of an annual general meeting, if it so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty one (21) clear days' Notice has been given;

a special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Articles or the Statutes.”

It is proposed that the existing definition of “special resolution” in Article 2(1) be amended as follows:

“a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such Members as, being entitled so to do, vote in person or, in the case of such Members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which Notice has been duly given in accordance with Article 59.

A special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Articles or the Statutes.”

- (vi) The existing definition of “Subsidiary and Holding Company” in Article 2(1) provides as follows:

“the meanings attributed to them in Section 2 of the Companies Ordinance of Hong Kong as in force at the time of adoption of the Articles.”

It is proposed that the existing definition of “Subsidiary and Holding Company” in Article 2(1) be amended as follows:

“has the meanings attributed to them in the rules of the Designated Stock Exchange.”

ARTICLE 2(2)

- (i) The existing Article 2(2)(e) provides as follows:

“expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form;”

It is proposed that the existing Article 2(2)(e) be amended as follows:

“expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form, and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member’s election comply with all applicable Statutes, rules and regulations;”

- (ii) By inserting the following paragraph as Article 2(2)(h) after the existing Article 2(2)(g):

“references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not;”

- (iii) By inserting the following paragraph as Article 2(2)(i) after the newly added Article 2(2)(h):

“Section 8 of the Electronic Transactions Law (2003) of the Cayman Islands, as amended from time to time, shall not apply to these Articles to the extent it imposes obligations or requirements in addition to those set out in these Articles.”

ARTICLE 3

- (i) The existing Article 3(2) provides as follows:

“Subject to the Law, the Company’s Memorandum and Articles of Association and, where applicable, the rules of any Designated Stock Exchange and/or any competent regulatory authority, any power of the Company to purchase or otherwise acquire its own shares shall be exercisable by the Board in such manner, upon such terms and subject to such terms and subject to such conditions as it thinks fit.”

It is proposed that the existing Article 3(2) be amended as follows:

“Subject to the Law, the Company’s Memorandum and Articles of Association and, where applicable, the rules of any Designated Stock Exchange and/or any competent regulatory authority, the Company shall have the power to purchase or otherwise acquire its own shares and such power shall be exercisable by the Board in such manner, upon such terms and subject to such conditions as it in its absolute discretion thinks fit and any determination by the Board of the manner of purchase shall be deemed authorised by these Articles for purposes of the Law. The Company is hereby authorised to make payments in respect of the purchase of its shares out of capital or out of any other account or fund which can be authorised for this purpose in accordance with the Law.”

(ii) The existing Article 3(3) provides as follows:

“Except as allowed by the Law and subject further to compliance with the rules and regulations of the Designated Stock Exchange and any other relevant regulatory authority the Company shall not give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.”

It is proposed that the existing Article 3(3) be amended as follows:

“Subject to compliance with the rules and regulations of the Designated Stock Exchange and any other relevant regulatory authority the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.”

ARTICLE 6

The existing Article 6 provides as follows:

“The Company may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce its share capital or any share premium account or any capital redemption reserve or other undistributable reserve in any manner permitted by law.”

It is proposed that the existing Article 6 be amended as follows:

“The Company may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce its share capital or any capital redemption reserve or other undistributable reserve in any manner permitted by law.”

ARTICLE 10

(i) The existing Article 10(a) provides as follows:

“the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy (or, in the case of a member being a corporation by its duly authorized representative) not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting of such holders, two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum;”

It is proposed that the existing Article 10(a) be amended as follows:

“the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a Member being a corporation, its duly authorized representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting of such holders, two holders present in person or (in the case of a Member being a corporation) its duly authorized representative or by proxy (whatever the number of shares held by them) shall be a quorum; and”

(ii) By deleting the punctuation and word “;and” after “every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him” and replacing therewith the punctuation “.” in the existing Article 10(b).

(iii) The existing Article 10(c) provides as follows:

“any holder of shares of the class present in person or by proxy or authorised representative may demand a poll.”

It is proposed that the existing Article 10(c) be deleted in its entirety.

ARTICLE 12

The existing Article 12(2) provides as follows:

“The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.”

It is proposed that the existing Article 12(2) be amended as follows:

“The Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.”

ARTICLE 16

The existing Article 16 provides as follows:

“Every share certificate shall be issued under the Seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the Directors may from time to time determine. No certificate shall be issued representing shares of more than one class. The Board may by resolution determine, either generally or in any particular case or cases, that any signatures on any such certificates (or certificates in respect of other securities) need not be autographic but may be affixed to such certificates by some mechanical means or may be printed thereon.”

It is proposed that the existing Article 16 be amended as follows:

“Every share certificate shall be issued under the Seal or a facsimile thereof or with the Seal printed thereon and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the Directors may from time to time determine. No certificate shall be issued representing shares of more than one class. The Board may by resolution determine, either generally or in any particular case or cases, that any signatures on any such certificates (or certificates in respect of other securities) need not be autographic but may be affixed to such certificates by some mechanical means or may be printed thereon.”

ARTICLE 44

The existing Article 44 provides as follows:

“The Register and branch register of Members, as the case may be, shall be open to inspection for at least two (2) hours on every business day by Members without charge or by any other person, upon a maximum payment of HK\$1.00 or such lesser sum the Board may approve, at the relevant Registration Office or such other place in the Cayman Islands at which the Register is kept in accordance with the Law. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in an appointed newspaper and where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.”

It is proposed that the existing Article 44 be amended as follows:

“The Register and branch register of Members, as the case may be, shall be open to inspection for at least two (2) hours on every business day by Members without charge or by any other person, upon a maximum payment of \$2.50 or such lesser sum specified by the Board, at the Office or such other place at which the Register is kept in accordance with the Law or, if appropriate, upon a maximum payment of \$1.00 or such lesser sum specified by the Board at the Registration Office. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of any Designated Stock Exchange or by any electronic means in such manner as may be accepted by the Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.”

ARTICLE 51

The existing Article 51 provides as follows:

“The registration of transfers of shares or of any class of shares may, after notice has been given by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.”

It is proposed that the existing Article 51 be amended as follows:

“The registration of transfers of shares or of any class of shares may, after notice has been given by advertisement in any newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.”

ARTICLE 59

(i) The existing Article 59(1) provides as follows:

“An annual general meeting and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by not less than twenty one (21) clear days’ Notice. All other extraordinary general meetings may be called by not less than fourteen (14) clear days’ Notice but a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.”

It is proposed that the existing Article 59(1) be amended as follows:

“An annual general meeting shall be called by Notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by Notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by Notice of not less than fourteen (14) clear days and not less than ten (10) clear business days but if permitted by the rules of the Designated Stock Exchange, a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and

- (b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.”
- (ii) The existing Article 59(2) provides as follows:

“The notice shall specify the time and place of the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all Members other than to such Members as, under the provisions of these Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding up of a Member and to each of the Directors and the Auditors.”

It is proposed that the existing Article 59(2) be amended as follows:

“The notice shall specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all Members other than to such Members as, under the provisions of these Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding up of a Member and to each of the Directors and the Auditors.”

ARTICLE 61

- (i) By deleting the word “and” after “the fixing of the remuneration of the Auditors, and the voting of remuneration or extra remuneration to the Directors” from the existing Article 61(1)(e).
- (ii) By deleting the punctuation “.” after “the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the Company representing not more than 20 per cent. in nominal value of its existing issued share capital” and replacing therewith the punctuation and word “; and” in Article 61(1)(f).

- (iii) By inserting the following paragraph as Article 61(1)(g) after the existing Article 61(1)(f):

“the granting of any mandate or authority to the Directors to repurchase securities of the Company.”

ARTICLE 63

The existing Article 63 provides as follows:

“The chairman of the Company shall preside as chairman at every general meeting. If at any meeting the chairman, is not present within fifteen (15) minutes after the time appointed for holding the meeting, or is not willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, or if the chairman chosen shall retire from the chair, the Members present in person or by proxy and entitled to vote shall elect one of their number to be chairman.”

It is proposed that the existing Article 63 be amended as follows:

“The chairman of the Company shall preside as chairman at every general meeting. If at any meeting the chairman, is not present within fifteen (15) minutes after the time appointed for holding the meeting, or is not willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, or if the chairman chosen shall retire from the chair, the Members present in person or (in the case of a Member being a corporation) by its duly authorised representative or by proxy and entitled to vote shall elect one of their number to be chairman.”

ARTICLE 66

The existing Article 66 provides as follows:

“Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a show of hands every Member present in person (or being a corporation, is present by a representative duly authorised), or by proxy shall have one vote and on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so

that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Articles, where more than one proxy is appointed by a Member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. A resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (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 authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all 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 authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all shares conferring that right; or
- (e) by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

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

It is proposed that the existing Article 66 be amended as follows:

“Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A resolution put to the vote of a meeting shall be decided by way of a poll.”

ARTICLE 67

The existing Article 67 provides as follows:

“Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.”

It is proposed that the existing Article 67 be deleted in its entirety.

ARTICLE 68

The existing Article 68 provides as follows:

“If a poll is duly demanded the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange.”

It is proposed that the existing Article 68 be amended as follows:

“The result of the poll shall be deemed to be the resolution of the meeting. The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange.”

ARTICLE 69

The existing Article 69 provides as follows:

“A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.”

It is proposed that the existing Article 69 be deleted in its entirety.

ARTICLE 70

The existing Article 70 provides as follows:

“The demand for a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded, and, with the consent of the chairman, it may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier.”

It is proposed that the existing Article 70 be deleted in its entirety.

ARTICLE 73

The existing Article 73 provides as follows:

“All questions submitted to a meeting shall be decided by a simple majority of votes except where a greater majority is required by these Articles or by the Law. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.”

It is proposed that the existing Article 73 be amended as follows:

“All questions submitted to a meeting shall be decided by a simple majority of votes except where a greater majority is required by these Articles or by the Law. In the case of an equality of votes, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.”

ARTICLE 75

The existing Article 75(1) provides as follows:

“A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, whether on a show of hands or on a poll, by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote on a poll by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting or poll, as the case may be.”

It is proposed that the existing Article 75(1) be amended as follows:

“A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote on a poll by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting, as the case may be.”

ARTICLE 76

The existing Article 76(2) provides as follows:

“Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

It is proposed that the existing Article 76(2) be amended as follows:

“Where the Company has knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

ARTICLE 80

The existing Article 80 provides as follows:

“The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve (12) months from such date. Delivery of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.”

It is proposed that the existing Article 80 be amended as follows:

“The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an

adjourned meeting in cases where the meeting was originally held within twelve (12) months from such date. Delivery of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.”

ARTICLE 81

The existing Article 81 provides as follows:

“Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.”

It is proposed that the existing Article 81 be amended as follows:

“Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.”

ARTICLE 82

The existing Article 82 provides as follows:

“A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office or the Registration Office (or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other document sent therewith) two (2) hours at least before the commencement of the meeting or adjourned meeting, or the taking of the poll, at which the instrument of proxy is used.”

It is proposed that the existing Article 82 be amended as follows:

“A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office or the Registration Office (or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other document sent therewith) two (2) hours at least before the commencement of the meeting or adjourned meeting, at which the instrument of proxy is used.”

ARTICLE 84

The existing Article 84(2) provides as follows:

“If a clearing house (or its nominee(s)), being a corporation, is a Member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of Members provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)) including the right to vote individually on a show of hands.”

It is proposed that the existing Article 84(2) be amended as follows:

“If a clearing house (or its nominee(s)), being a corporation, is a Member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of Members provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)).”

ARTICLE 86

- (i) The existing Article 86(1) provides as follows:

“Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2). There shall be no maximum number of Directors unless otherwise determined from time to time by the Members in general meeting. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them and thereafter in accordance with Article 87 and shall hold office until their successors are elected or appointed.”

It is proposed that the existing Article 86(1) be amended as follows:

“Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2). There shall be no maximum number of Directors unless otherwise determined from time to time by the Members in general meeting. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them and thereafter in accordance with Article 87 called for such purpose and who shall hold office for such term as the Members may determine or, in the absence of such determination, in accordance with Article 87 or until their successors are elected or appointed or their office is otherwise vacated.”

- (ii) The existing Article 86(3) provides as follows:

“The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.”

It is proposed that the existing Article 86(3) be amended as follows:

“The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.”

ARTICLE 87

- (i) The existing Article 87(1) provides as follows:

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

It is proposed that the existing Article 87(1) be amended as follows:

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

- (ii) The existing Article 87(2) provides as follows:

“A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed pursuant to Article 86(2) or Article 86(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.”

It is proposed that the existing Article 87(2) be amended as follows:

“A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed by the Board pursuant to Article 86(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.”

ARTICLE 88

The existing Article 88 provides as follows:

“No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

It is proposed that the existing Article 88 be amended as follows:

“No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least

seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

ARTICLE 89

The existing Article 89(1) provides as follows:

“resigns his office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;”

It is proposed that the existing Article 89(1) be amended as follows:

“resigns his office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board;”

ARTICLE 104

The existing Article 104(4)(iii) provides as follows:

“if any one or more of the Directors hold (jointly or severally or indirectly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.”

It is proposed that the existing Article 104(4)(iii) be amended as follows:

“if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.”

ARTICLE 115

The existing Article 115 provides as follows:

“A meeting of the Board may be convened by the Secretary on request of a Director or by any Director. The Secretary shall convene a meeting of the Board of which notice may be given in writing or by telephone or in such other manner as the Board may from time to time determine whenever he shall be required so to do by the president or chairman, as the case may be, or any Director.”

It is proposed that the existing Article 115 be amended as follows:

“A meeting of the Board may be convened by the Secretary on request of a Director or by any Director. The Secretary shall convene a meeting of the Board. Notice of a meeting of the Board shall be deemed to be duly given to a Director if it is given to such Director in writing or verbally (including in person or by telephone) or via electronic mail or by telephone or in such other manner as the Board may from time to time determine whenever he shall be required so to do by any Director.”

ARTICLE 133

The existing Article 133(1) provides as follows:

“The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company, the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the word “Securities” on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Articles, any instrument to which a Seal is affixed shall be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with (except in the case of certificates for shares) or affixed by some method or system of mechanical signature. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Board previously given.”

It is proposed that the existing Article 133(1) be amended as follows:

“The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company, the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the word “Securities” on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Articles, any instrument to which a Seal is affixed shall be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Board previously given.”

ARTICLE 146

The existing Article 146(1) provides as follows:

“The Board shall establish an account to be called the share premium account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any share in the Company. The Company may apply the share premium account in any manner permitted by the Law. The Company shall at all times comply with the provisions of the Law in relation to the share premium account.”

It is proposed that the existing Article 146(1) be amended as follows:

“The Board shall establish an account to be called the share premium account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any share in the Company. Unless otherwise provided by the provisions of these Articles, the Board may apply the share premium account in any manner permitted by the Law. The Company shall at all times comply with the provisions of the Law in relation to the share premium account.”

ARTICLE 152

The existing Article 152 provides as follows:

“A printed copy of the Directors’ report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors’ report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and laid before the Company at the annual general meeting held in accordance with Article 56 provided that this Article shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.”

It is proposed that the existing Article 152 be amended as follows:

“Subject to Article 152A, a printed copy of the Directors’ report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors’ report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting held in accordance with Article 56 provided that this Article shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.”

ARTICLE 152A

By inserting the following paragraph as Article 152A after the existing Article 152:

“Subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 152 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, summarised financial statements derived from the Company’s annual accounts and the directors’ report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors’ report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company’s annual financial statement and the directors’ report thereon.”

ARTICLE 152B

By inserting the following paragraph as Article 152B after the newly added Article 152A:

“The requirement to send to a person referred to in Article 152 the documents referred to in that article or a summary financial report in accordance with Article 152A shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Article 152 and, if applicable, a summary financial report complying with Article 152A, on the Company’s computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company’s obligation to send to him a copy of such documents.”

ARTICLE 153

- (i) The existing Article 153(1) provides as follows:

“At the annual general meeting or at a subsequent extraordinary general meeting in each year, the Members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the Members appoint another auditor. Such auditor may be a Member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company.”

It is proposed that the existing Article 153(1) be amended as follows:

“At the annual general meeting or at a subsequent extraordinary general meeting in each year, the Members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Such auditor may be a Member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company.”

- (ii) The existing Article 153(2) provides as follows:

“A person, other than a retiring Auditor, shall not be capable of being appointed Auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of Auditor has been given not less than fourteen (14) days before the annual general meeting and furthermore, the Company shall send a copy of any such notice to the retiring Auditor.”

It is proposed that the existing Article 153(2) be deleted in its entirety.

ARTICLE 156

The existing Article 156 provides as follows:

“If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, the Directors shall as soon as practicable convene an extraordinary general meeting to fill the vacancy.”

It is proposed that the existing Article 156 be amended as follows:

“If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, the Directors shall fill the vacancy and fix the remuneration of the Auditor so appointed.”

ARTICLE 158

The existing Article 158 provides as follows:

“The statement of income and expenditure and the balance sheet provided for by these Articles shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or officers of the Company, whether the same has been furnished and has been satisfactory. The financial statements of the Company shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the Members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the Auditor should disclose this act and name such country or jurisdiction.”

It is proposed that the existing Article 158 be amended as follows:

“The statement of income and expenditure and the balance sheet provided for by these Articles shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or officers of the Company, whether the same has been furnished and has been satisfactory. The financial statements of the Company shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the Members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the Auditor should disclose this fact and name such country or jurisdiction.”

ARTICLE 159

The existing Article 159 provides as follows:

“Any Notice or document, whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appropriate newspapers in accordance with the requirements of the Designated Stock Exchange. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.”

It is proposed that the existing Article 159 be amended as follows:

“Any Notice or document (including any “corporate communication” within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appropriate newspapers in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company’s website or the website of the Designated Stock Exchange, and giving to the member a notice stating that the notice or other document is available there (a “notice of availability”). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.”

ARTICLE 160

(i) The existing Article 160(a) provides as follows:

“if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof; and”

It is proposed that the existing Article 160(a) be amended as follows:

“if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the Notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the Notice or other document was so addressed and put into the post shall be conclusive evidence thereof;”

- (ii) By inserting the following paragraph as new Article 160(b) after the existing Article 160(a):

“if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A Notice placed on the Company’s website or the website of the Designated Stock Exchange, is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;”

- (iii) By renumbering the existing Article 160(b) as Article 160(c) and deleting the punctuation “.” at the end of such Article and replacing therewith the punctuation and word “; and”.

- (iv) By inserting the following paragraph as new Article 160(d) after the new Article 160(c):

“may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.”

ARTICLE 164

The existing Article 164(1) provides as follows:

“Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) (if the Company shall be wound up and the assets available for distribution amongst the Members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the Members as such shall be insufficient to repay the whole of the paid-up capital such assets shall be distributed so that, a nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.”

It is proposed that the existing Article 164(1) be amended as follows:

“Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) (if the Company shall be wound up and the assets available for distribution amongst the Members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the Members as such shall be insufficient to repay the whole of the paid-up capital such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.”

NOTICE OF EGM



ERA Holdings Global Limited

年代國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8043)

NOTICE OF EXTRAORDINARY GENERAL MEETING

Capitalised terms used in this notice shall have the same meaning as ascribed to them in the circular of the Company dated 30 June 2010 unless otherwise specified below.

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of ERA Holdings Global Limited (the “Company”) will be held at Unit 9B, 9th Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong on Friday, 23 July 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, approving the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) a conditional sale and purchase agreement (the “Agreement”) dated 9 October 2009 entered into between the Vendor and the Purchaser relating to the sale and purchase of the entire issued capital of the Target owned by the Vendor before Completion for a consideration of HK\$1,164 million, a copy of which is tabled before the Meeting attached herewith marked “A” and signed by a Director for identification purposes, and the transactions contemplated under it and all other incidental transactions be and are hereby authorized, approved, ratified and confirmed;

NOTICE OF EGM

- (b) a supplemental deed dated 31 March 2010 entered into between the Vendor and the Purchaser whereby certain terms of the Agreement were amended , a copy of which is tabled before the Meeting attached herewith marked “B” and signed by a Director for identification purposes, and the transactions contemplated under it and all other incidental transactions be and are hereby approved, ratified and confirmed; and

- (c) any one or more of the Directors be and is/are hereby authorized to sign and execute all such documents, instruments and agreements, and to do all such acts and things, as they may consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the paragraphs (a) to (b) of this ordinary resolution and all transactions contemplated thereunder; and to agree to any amendment to any of the term of such agreements which in the opinion of the Director(s) is/are in the interests of the Company and in accordance with the GEM Listing Rules and/or the Takeovers code (where relevant).”

2. **“THAT:**

- (a) the Whitewash Waiver in respect of the obligation upon the Vendor and persons acting in concert with them (within the meaning of the Takeovers Code) to make an unconditional mandatory general offer for all the Shares not already owed or agreed to be acquired by them, resulting from the issue of the Consideration Shares to the Vendor and which would (save for the Whitewash Waiver) otherwise arise under Rule 26 of the Takeovers Code, be and is hereby approved; and

- (b) any one or more of the Directors be and is/are hereby authorized to sign and execute all such documents, instruments and agreements, and to do all such acts and things, as they may consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the paragraph (a) of this ordinary resolution and all transactions contemplated thereunder; and to agree to any amendment to any of the term of such documents, instruments and agreements which in the opinion of the Director(s) is/are in the interests of the Company and in accordance with the GEM Listing Rules and/or the Takeovers code (where relevant).”

NOTICE OF EGM

3. “**THAT** conditional upon the passing of ordinary resolutions 1 and 2, and the Listing Division of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, the Consideration Shares, the grant of a specific mandate for the allotment and issue of the Consideration Shares be and is hereby approved.”
4. “**THAT** conditional upon the passing of ordinary resolutions 1 and 2, and the Listing Division of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, the Remuneration Shares, the grant of a specific mandate for the allotment and issue of the final batch of Remuneration Shares be and is hereby approved.”
5. “**THAT:**
 - (a) conditional upon the passing of ordinary resolutions 1 and 2, the placing of up to 1,200,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company (“**Placing Shares**”) at a price of not less than HK\$0.291 per Placing Share, and the relevant agreement(s) to be entered into between the Company and the relevant placing agent(s) in relation to such placing and the transactions contemplated thereunder be and is hereby confirmed, approved and ratified;
 - (b) any one or more of the Directors be and is/are hereby authorized to sign and execute all such documents, instruments and agreements, and to do all such acts and things, as they may consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Placing and all transactions contemplated thereunder (including but not limited to determining and dealing with the specific timing of the issue of Placing Shares, final number of the Placing Shares to be issued, offering mechanism, placing price (subject to the minimum placing price set out in paragraph (a) of this ordinary resolution), target placees and the number and proportion of Shares to be issued to each placee), and to agree to any amendment to any of the term of such documents, instruments and agreements which in the opinion of the Director(s) is/are in the interests of the Company and in accordance with the GEM Listing Rules and/or the Takeovers code (where relevant);

NOTICE OF EGM

- (c) conditional upon the Listing Division of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, the Placing Shares, and subject to paragraphs (e) and (f) of this ordinary resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar right to subscribe for any shares or convertible securities of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power, for the sole purpose of fulfilling any conditions set out in the Agreement, including but not limited to the issue of Placing Shares, be and is hereby generally and unconditionally approved;
- (d) the approval in paragraph (c) of this ordinary resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (e) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (c) of this Resolution, otherwise than (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries and/or any eligible persons thereunder of shares or rights to acquire shares in the capital of the Company; (iii) an issue of shares as scrip dividends pursuant to the articles of association of the Company from time to time; or (iv) an issue of shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed HK\$12,000,000, representing 1,200,000,000 ordinary Shares, and the said approval shall be limited accordingly;

NOTICE OF EGM

- (f) any issue, allotment and dealings with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar right to subscribe for any shares or convertible securities of the Company and the making or grant of any offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) upon the exercise of any power by the Directors pursuant to this ordinary resolution shall not result in the Company issuing any Shares at less than HK\$0.01 per Share; and
- (g) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this ordinary resolution until whichever is the earliest of:

- (i) 30 September 2010; or
- (ii) the date upon which such authority given under this ordinary resolution is revoked or varied by an ordinary resolution of the independent shareholders of the Company in general meeting of the Company.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the Directors to the holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

NOTICE OF EGM

SPECIAL RESOLUTION

6. “**THAT** the new articles of association of the Company (a copy of which is tabled before the Meeting attached herewith marked “D” and signed by a Director for identification purposes) be and are hereby approved and adopted as the new articles of association of the Company in substitution for and to the exclusion of the existing articles of association of the Company with immediate effect.”

By order of the Board
ERA Holdings Global Limited
Lee Jong-Dae
Chairman

Hong Kong, 30 June 2010

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

Head office and principal place of business

in Hong Kong:
Room 9B
9th Floor, Shun Ho Tower
24-30 Ice House Street
Central
Hong Kong

NOTICE OF EGM

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend, and, subject to the provisions of the articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of ERA Holdings Global Limited in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire.
3. In the case of joint holders of the Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Share as it he/she/it 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 on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.