



Executive Directors' Statement

I. The Incident

According to the ICAC Press Release and/or the Press Reports on 24 November 2004, the ex-chairman of the Company, Mr. Wong Chor Wo ("Mr. Wong") had been arrested by the ICAC and was charged with (1) misappropriating company funds totalling HK\$20.8 million and (2) knowingly making a false statement to the Company's auditor, PricewaterhouseCoopers, contrary to Section 134 of the Companies Ordinance ("the Incident").

Two ex-Directors, namely Ms. Rosita Andres ("Ms. Andres") (the wife of Mr. Wong) and Mr. Eric Po and one other employee of the Company had also been arrested but later released without charge. Mr. Eric Po and the other employee have since the Incident ceased to be employees of the Company.

The Group's bankers had, in light of the Incident, demanded repayment of the Group's outstanding facilities. The total amount demanded then was approximately HK\$75,000,000. The Group's principal bankers were then in an informal standstill arrangement with the Group regarding the banking facilities of the Group with those banks. The Group has appointed Ferrier Hodgson as an independent financial accountant to review the cashflow and the financials of the Group on an ongoing basis so as to monitor the financial position of the Group. Any outflow of cash of the Group requires the prior consent of Ferrier Hodgson.

The books and records of the Group have been seized by the ICAC.

With a view to restoring the credibility of the Board and safeguarding the interests of the shareholders of the Company, the Board had taken urgent steps to restructure the management of the Group, including:

- (a) Mr. Wong and Ms. Andres resigned as Executive Directors of the Company on 21 February 2005. Mr. Wong and Ms. Andres were removed from all authorised signatories on all bank accounts of the Group;
- (b) Mr. Wong resigned as an authorised representative of the Company on 21 February 2005;
- (c) Mr. Yue Kwai Wa, Ken has been appointed as an Independent Non-executive Director of the Company on 25 January 2005;
- (d) Mr. Wong Chor Sang and Mr. Danny Kwok Kee Ho have been appointed as authorised representatives of the Company on 21 February 2005;
- (e) Mr. Chan Wai Kin, Benito and Mr. Tse Chung Sing have been appointed as Executive Directors of the Company on 25 January 2005;



- (f) Mr. Peter Ko has been appointed as the Company Secretary of the Company with effect from 21 February 2005; and
- (g) Save for in the ordinary course of business, the Group will not enter into any contract or capital commitment in excess of HK\$100,000 save with the approval of a majority of the Independent Non-executive Directors.

Mr. Wong's resignation is not an admission to guilt in relation to the charges laid against him but a gesture to distance the Company from the Incident. Mr. Wong has undertaken to the Company that he will not have any influence over the management of the Company following his resignation as a Director of the Company.

Following these changes, Mr. Wong Chor Sang, the brother of Mr. Wong, and Mr. Danny Kwok Kee Ho shall thereafter oversee and manage the business of the Group in Hong Kong and the People's Republic of China (the "PRC") respectively. Neither had been linked nor arrested in connection with the Incident.

The Company formed an Independent Committee comprising all of the Independent Non-executive Directors to conduct a review of the financial and system control of the Group in light of the Incident. The Independent Committee is delegated with duties and powers as set out in the following terms of reference:

- (1) to review and inquire into the accounts, records and affairs of the Group for the purpose of enabling the Group:
 - (a) to manage and protect the Group against the risk and exposure of the Group;
 - (b) to monitor the continuation of normal operation of the Group; and
 - (c) to determine whether proper books and accounts are kept;in view of or in connection with the Incident as the Independent Committee may deem fit (the "Inquiry");
- (2) to review the corporate governance and finance control system of the Group (the "Review");
- (3) to appoint and engage a financial monitor as soon as possible to provide safeguard for and control over the assets of the Group on such terms as the Independent Committee may deem fit, until the completion of the Inquiry and Review;



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- (4) to advise and make recommendation to the Group on the actions (if any) which shall be taken by the Group in accordance with the results of the Inquiry;
- (5) to advise and make recommendation to the Group on the actions (if any) which shall be taken by the Group in accordance with the results of the Review;
- (6) generally, to advise and make recommendation to the Group on any action which shall be taken by the Group to protect the interest of the Group in view of or in connection with the Incident; and
- (7) to investigate into the alleged misappropriation of funds by Mr. Wong including whether the alleged misappropriated funds derive from the proceeds of the Company's listing in 2001.

The Company has prepared an Internal Control and Accounting Manual (the "Manual"), which was adopted by the Group. This Manual was prepared by the Accounts Manager of the Company in conjunction with its legal advisers. HLB Hodgson Impey Cheng was appointed on 19 January 2005 to review, supervise and monitor its implementation and to see whether there are any compliance shortcomings and to advise the Independent Committee accordingly. The Manual is a set of best practices developed by the Company in relation to internal financial control systems and regulation. The areas covered include accounting controls and administrative controls. Administrative controls deal with the operations of the business and internal controls deal with accounting for such operations. By implementing this Manual, the Company can thereby ascertain whether there are any weaknesses and/or loopholes in the Group's internal control systems.

Mr. Wong Chor Sang and Mr. Danny Kwok Kee Ho have been appointed as authorised representatives of the Company with effect from 25 January 2005.

II. Accounting Records and Accounting Personnel

On or after the Incident, a majority of the books and records of the Group have been seized by the ICAC.

Shortly after the Incident, Mr. Eric Po, the ex-Chief Financial Officer, and another senior accounting staff resigned, soon followed by another accounting staff. Effectively, all but one junior accounting staff continued her employment with the Company after the Incident.

The seizure of the accounting records by the ICAC together with the high turnover of accounting staff resulted in certain books and records becoming not completely available.



III. Standstill Agreement

The Company has on 24 February 2005 entered into a formal standstill arrangement with its principal bankers (excluding Banco Delta Asia S.A.R.L.) regarding the banking facilities of the Group with those banks. The formal standstill agreement essentially formalises the informal standstill arrangement, which had been put in place by the Group's bankers (excluding Banco Delta Asia S.A.R.L.) since November 2004.

IV. Acquisition of a Majority Stake in Company by the Offeror

On 12 April 2005, Orientelite Investments Limited, which is beneficially majority owned by China Enterprise Capital Limited ("CEC") (the "Purchaser" or the "Offeror") informed the Board that the Offeror has entered into a Sale and Purchase Agreement with Wisechoice Assets Limited ("Wisechoice") (a company wholly owned by Mr. Wong and held 135,000,000 Shares, representing 67.5% of the entire issued share capital of the Company) and Accuport Development Limited ("Accuport") (a company wholly owned by Ms. Andres and held 15,000,000 Shares, representing 7.5% of the entire issued share capital of the Company) (collectively the "Vendors") pursuant to which, the Offeror agreed to purchase and the Vendors agreed to sell an aggregate 150,000,000 Shares for a total consideration of HK\$4,000,000 (equivalent to approximately HK\$0.0267 per Share). The Sale Shares represent 75% of the issued share capital of the Company. The acquisition of the Sale Shares by the Offeror pursuant to the Sale and Purchase Agreement was completed on 12 April 2005.

The Offeror has also entered into a deed of assignment dated 12 April 2005 between the Offeror, Standard Chartered Bank (Hong Kong) Limited (the "Coordinating Bank") and 9 of the bank creditors of the Company (the "Assigning Banks") whereby the Coordinating Bank and the Assigning Banks agreed to assign their rights and benefits under the banking facilities, which in aggregate is approximately HK\$69 million, to the Offeror ("Debt Assignment"). Following completion of the Debt Assignment, the rights and benefits of the Assigned Debt will be assigned to the Offeror and the obligations and liabilities of the Group thereunder will thereafter be due and liable to the Offeror on the same terms as the Assigned Debts were owed to the Assigning Banks. The Offeror has released the guarantees given by the Company and the security over the assets of certain subsidiaries of the Company pursuant to the Underlying Agreements. The Offeror has not taken any pledge of the assets of the Group.

Following the acquisition of the Sale Shares, the Offeror owns an aggregate of 150,000,000 Shares, representing 75% of the issued and voting share capital of the Company and the Offeror is required to make a mandatory unconditional cash offer for all the outstanding Shares (other than those already acquired by the Offeror and its concert parties) pursuant to Rule 26.1 of the Code on Takeovers and Mergers (the "Takeovers Code"). First Shanghai Securities Limited will, on behalf of the Offeror, make the Offer for all the issued Shares not already owned by the Offeror and parties acting in concert with it. Save for the acquisition of the Sale Shares by the Offeror, none of the Offeror and parties acting in concert with it has dealt in any Shares during the six months prior to the date of Sale and Purchase Agreement.



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The Offer for each Share will be HK\$0.0267 in cash, the Offer Price is slightly above the price as that paid by the Offeror to the Vendors for the Sale Shares pursuant to the Sale and Purchase Agreement. The total number of Shares subject to the Offer are valued at HK\$1,335,000 based on the Offer Price. First Shanghai Capital Limited is satisfied that the Offeror has sufficient financial resources to fulfill its obligations under the Offer.

An independent board committee to advise the independent shareholders in respect of the Offer has been established by the Company. On 20 April 2005, Partners Capital International Limited has been appointed as the independent financial adviser to advise the independent board committee of the Company in respect of the Offer.

Information on the Offeror and its Intention in Relation to the Company

The Offeror is a private company incorporated in the British Virgin Islands with limited liability and is 80% beneficially owned by CEC.

CEC is a limited liability company incorporated in the British Virgin Islands and is a closed ended investment company organised to make direct investments in a diversified portfolio through the provision of expansion capital, buy out investments and special situation investments. CEC has a broad range of shareholders including public and private companies, financial institutions, individuals and family trusts. No single shareholder has control of CEC. CEC has approximately 28 shareholders with the largest shareholder holding approximately 13.42% of the total issued share capital of CEC.

The Offeror proposes to continue the existing business of the Company but will regularly review its current business activities and assets. The Offeror does not intend to make any changes to the existing business of the Company. It proposes to seek additional manufacturing opportunities and identify suitable new investment opportunities to further develop the Company, although no specific targets have been identified and no negotiations have been entered into.



Directors and Management

It is intended that all the existing Executive and Non-executive Directors will resign at the earliest time permitted under the Takeovers Code and the Listing Rules. The Offeror intends to appoint new Directors to the Board at the earliest time permitted under the Takeovers Code. Any appointments of new Directors by the Offeror will be in full compliance with the requirements of the Takeovers Code and the Listing Rules. The proposed new Directors are set out below:

Executive Directors

- Peter LO
- CHAU Wai-Kau
- Derek Emory Ting-Lap YEUNG
- David Lee SUN
- Thomas GREER
- Peter Jeva AU

Independent Non-executive Directors

- LEUNG Kwan-Kwok (Dr.)
- Sam ZUCHOWSKI

The Offeror intends that there are at least three Independent Non-executive Directors appointed to the Board following the resignation of the existing Directors and intends to appoint an additional Independent Non-executive Director to the Board at such time.

The Offeror does not currently expect that there will be any changes to the continued employment of the employees of the Group or to the employment terms or conditions of the employees of the Group as a result of the Offer.

Tse Chung Sing

Executive Director

Hong Kong

28 April 2005