**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your securities of The Quaypoint Corporation Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



# THE QUAYPOINT CORPORATION LIMITED
# 紀 翰 集 團 有 限 公 司*

*(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 2330)

## MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARES IN A COMPANY WITH INTERESTS IN PROPERTIES AND RE-ELECTION OF DIRECTOR

**Financial Adviser**

CENTURION CORPORATE FINANCE LIMITED

**Independent Financial Adviser to the Independent Board Committee and Independent Shareholders**

AMS Corporate Finance Limited

A letter from the board of Directors of The Quaypoint Corporation Limited (the "Company") is set out on pages 4 to 17 of this circular. A letter from the Independent Board Committee is set out on page 18 of this circular. A letter from AMS Corporate Finance Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 27 of this circular.

A notice convening an extraordinary general meeting (the "EGM") of the Company to be held at Central Plaza Executive Club, P Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 28 December 2006 at 10:00 a.m. is set out on pages 131 to 132 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company in Hong Kong at Suite 1304, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for 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.

* *for identification purposes only*

11 December 2006

# CONTENTS

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

| | |
|---|---|
| "Acquisition" | the proposed acquisition by the Company of the entire issued share capital of Weina Land and the assignment of the Shareholder's Loan pursuant to the terms and conditions of the Agreement |
| "Agreement" | the sale and purchase agreement dated 17 November 2006 in relation to the acquisition of the entire issued shares of Weina Land and the assignment of the Shareholder's Loan |
| "AMS" | AMS Corporate Finance Limited, a corporation licensed under the SFO to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition |
| "Board" | The board of directors of the Company |
| "Business Day" | a day other than a Saturday during which banks are open for business in Hong Kong |
| "Centurion" | Centurion Corporate Finance Limited, a deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities defined in the SFO |
| "Code" | the Hong Kong Code on Takeovers and Mergers |
| "Company" | The Quaypoint Corporation Limited, the shares of which are listed on the Stock Exchange |
| "Completion" | completion of the Acquisition |
| "Conversion Period" | subject to the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Ordinary Shares to be issued following the conversion of the Preference A Shares, the period (a) from the day on which the trading of the Ordinary Shares shall resume following the suspension in which the Ordinary Shares are currently subject to (provided that such date shall be no later than the date being the one month prior to the end of second anniversary of the issue of the Preference A Shares) to (b) the earlier of (x) the date of commencement of the voluntary or involuntary winding up of the Company and (y) the date being the 10 business days before the second anniversary of the date of initial issue of the Preference A Shares, subject to an extension of 12 months and a further extension of such period as set out in the paragraph under the sub-heading "Conversion" |

| | |
|---|---|
| "Directors" | directors of the Company |
| "EGM" | an extraordinary general meeting of the Company be convened to consider and, if thought fit, approve, among other things, the Acquisition (or any adjournment thereof) |
| "Enlarged Group" | the Group after Completion, including Weina Land which will have become a subsidiary of the Company by then |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Independent Board Committee" | an independent committee appointed by the Board to advise the Independent Shareholders in respect of the Acquisition, comprising the independent non-executive directors of the Company Messrs. Lau Sai Chung, Poon Lai Yin, Michael and Ng Kwok Chu, Winfield |
| "Independent Shareholders" | Shareholders other than Mr. Tsim's son |
| "Issued Convertible Shares" | the 250,000,000 convertible redeemable preference shares of the Company issued to Weina BVI pursuant to the Subscription and Option Agreement |
| "Latest Practicable Date" | 7 December 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Mr. Tsim" | Mr. Tsim Wing Kong |
| "Option Convertible Shares" | the 100,000,000 convertible redeemable preference shares of the Company in which Weina BVI will be required to subscribe for following the exercise of the option granted to the Company by Weina BVI pursuant to the Subscription and Option Agreement |
| "Ordinary Share(s)" | the ordinary share(s) of HK$0.10 each in the capital of the Company |

| | |
|---|---|
| "Preference A Share(s)" | the 110,000,000 convertible redeemable non-voting preference share(s) of HK$0.10 each in the capital of the Company to be allotted and issued as consideration for the Acquisition |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFC" | the Securities and Futures Commission |
| "Shareholder(s)" | holder(s) of the Ordinary Share(s) |
| "Shareholder's Loan" | the loan in the amount of HK$42,823,377.34 in which Weina Land is indebted to Weina Holdings as at the date of the Agreement and as at the Latest Practicable Date |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscription and Option Agreement" | the subscription and option agreement dated 26 May 2006 entered into between the Company, Weina BVI and Mr. Tsim |
| "Vendor" | Weina Holdings |
| "Weina BVI" | Weina BVI Limited, a limited company incorporated in the British Virgin Islands |
| "Weina Group" | Weina Group Limited, a limited company incorporated in the British Virgin Islands |
| "Weina Holdings" | Weina Holdings Limited, a limited company incorporated in Hong Kong |
| "Weina Land" | Weina Land Limited, a limited company incorporated in Hong Kong |
| "%" | per cent. |

# THE QUAYPOINT CORPORATION LIMITED
# 紀 翰 集 團 有 限 公 司*

*(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 2330)

*Executive Directors:*
Dr. SZE Kwan *(Vice Chairman)*
Ms. CHAN Siu Chu, Debby *(Chief Executive Officer)*
Mr. SIEK Fui
Mr. LIU Ping

*Non-Executive Director:*
Mr. Gerard J. MCMAHON *(Chairman)*

*Independent Non-Executive Directors:*
Mr. LAU Sai Chung
Mr. NG Kwok Chu, Winfield
Mr. POON Lai Yin, Michael

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

*Head office and principal place of business in Hong Kong:*
Suite 1304, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

11 December 2006

*To the Shareholders,*

Dear Sirs,

## MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARES IN A COMPANY WITH INTERESTS IN PROPERTIES AND RE-ELECTION OF DIRECTOR

### INTRODUCTION

The Board announced that the Agreement was entered into on 17 November 2006 pursuant to which the Company will acquire from Weina Holdings the entire issued share capital of Weina Land at an aggregate consideration of HK$44 million. The terms of the Agreement were determined after arm's length negotiations and were concluded on normal commercial terms between the respective parties.

The Acquisition constitutes a major transaction and a connected transaction for the Company pursuant to Chapter 14 and rule 14A.13(1)(b)(i) of the Listing Rules respectively and, hence, the Acquisition is subject to the approval of the Independent Shareholders.

* *for indentification purposes only*

The Independent Board Committee has been appointed and formed to advise the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole. AMS, the independent financial adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect. The EGM will be held to consider and, if thought appropriate, to approve the Acquisition.

The purpose of this circular is to provide you with the particulars of the Acquisition, the letter from the Independent Board Committee and the letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company.

**THE ACQUISITION**

**Parties to the Agreement**

**The Vendor:** Weina Holdings

**The Purchaser:** The Company

**The Guarantor:** Mr. Tsim, as guarantor of the obligations of Weina Holdings

**Acquisition**

Under the Agreement, the Vendor agreed to sell to the Company its entire shareholding interest in Weina Land and to assign the Shareholder's Loan to the Purchaser, at an aggregate consideration of HK$44 million.

**Property Portfolio**

Weina Land is engaged in investment property holding and details (including the valuation as at 31 October 2006) of its portfolio of properties are as follows:

(i) Unit 302 Lippo Sun Plaza, 28 Canton Road, Tsimshatsui, Kowloon, Hong Kong (with a saleable area of approximately 851 sq.ft. and valued at HK$8,700,000)

(ii) Unit 702 Lippo Sun Plaza, 28 Canton Road, Tsimshatsui, Kowloon, Hong Kong (with a saleable area of approximately 851 sq.ft. and valued at HK$9,000,000)

(iii) Unit 520 East Ocean Centre, 98 Granville Road, Tsimshatsui, Kowloon, Hong Kong (with a saleable area of approximately 576 sq.ft. and valued at HK$5,400,000)

(iv) Units 708 and 709 East Ocean Centre, 98 Granville Road, Tsimshatsui, Kowloon, Hong Kong (with a saleable area of approximately 1,152 sq.ft. and valued at HK$11,000,000)

(v) Unit 711 East Ocean Centre, 98 Granville Road, Tsimshatsui, Kowloon, Hong Kong (with a saleable area of approximately 576 sq.ft. and valued at HK$5,450,000)

(vi) Unit 713 East Ocean Centre, 98 Granville Road, Tsimshatsui, Kowloon, Hong Kong (with a saleable area of approximately 576 sq.ft. and valued at HK$5,450,000)

All of the above properties, except for one which is currently vacant, are leased as offices to parties who are third parties independent of the Company and the connected persons (as defined in the Listing Rules) of the Company. The only property that is vacant, has just been leased pursuant to a provisional tenancy agreement entered into on 1 December 2006 which stipulates that the lease term is to begin on 21 December 2006. The valuation of the properties was conducted by Vigers Appraisal & Consulting Limited, which is a third party independent of the Company and the connected persons (as defined in the Listing Rules) of the Company and the independent property valuation report is set out in Appendix V to the circular. As at the date of the Agreement, each of the above properties referred to in items (i) and (v) above is subject to a mortgage to secure all monies in respect of general banking facilities granted or to be granted by the mortgagee/lender to Weina Land (the "Mortgage"), however, as at the Latest Practicable Date, there is no outstanding amount due under such banking facilities and the banking facilities have now been cancelled. The Company has been advised by the Vendor that the total acquisition cost of the properties, which were acquired in 1996, is approximately HK$38.8 million.

The total audited net asset value of Weina Land (which has no subsidiaries) as at 31 March 2006 was HK$830,692. As at 31 August 2006, total audited net asset value of Weina Land was HK$2,155,353 (after netting off the amount of the Shareholder's Loan due to the Vendor) and on the basis that such Shareholder's Loan will be assigned to the Purchaser pursuant to the Agreement, accordingly the net asset value of Weina Land could be adjusted to approximately HK$45,000,000. Weina Land recorded audited net profits before and after taxation of HK$27,277,144 for the financial year ended 31 March 2006 after taking into account an increase in fair value of investment properties of HK$26,746,700. Net profits before and after taxation for the financial year ended 31 March 2005 were both HK$230,294.

**Consideration for the Acquisition**

The consideration for the Acquisition is HK$44,000,000 and has been agreed after arm's length negotiations between the Company and the Vendor with reference to the aggregate value of HK$45,000,000 for the properties as determined by the valuation conducted on the properties on 31 October 2006 and with references to the net asset value of Weina Land as at 31 August 2006 as set out above and the amount of the Shareholder's Loan. As such, the consideration of HK$44,000,000 represents a discount of HK$1 million or 2.2% to the aggregate value of the properties as determined by the valuation report. The Directors are of the view that the consideration for the Acquisition reflects the value of the properties taking into account the valuation of the properties. The consideration will be satisfied by the issue to Weina Holdings or its nominee of 110,000,000 Preference A Shares. The terms of the Preference A Shares are set out below:

**Preference A Shares to be issued**

110,000,000 new Preference A Shares will be issued to the Vendor or its nominee as consideration for the Acquisition. 110,000,000 underlying Ordinary Shares will be issued upon full conversion of 110,000,000 Preference A Shares representing approximately 31.43% of the existing issued share capital of the Company and approximately 23.91% of the issued ordinary share capital of the Company as enlarged by the full conversion of the 110,000,000 Preference A Shares. As at the Latest Practicable Date, the authorized share capital of the Company is 1,000,000,000 Ordinary Shares and of which, 350,000,000 ordinary shares were issued and outstanding.

The Preference A Shares will not be listed on the Stock Exchange or any other stock exchange.

**Other terms of the Preference A Shares**

*Conversion*

Subject to the right of redemption exercisable by the Company during the Conversion Period and assuming the relevant Preference A Shares have not been redeemed, the Preference A Shares are convertible into new Ordinary Shares during the Conversion Period at the conversion price of HK$0.40 (subject to adjustments for the following events: alterations to the nominal value of the Ordinary Shares as a result of consolidation or subdivision; capitalisation of profits or reserves; capital distributions; rights or warrants issues; issues of shares or other securities at less than the then current market price; modifications as to rights of conversion and other events which may require adjustments to be determined by the Company's auditor or financial adviser; such adjustments are identical to those under the Issued Convertible Shares and Option Convertible Shares and details of which are set out in Appendix I to this circular). The right to convert may be exercised in full or in part only at the discretion of the holder, subject to the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Ordinary Shares to be issued following the conversion of the Preference A Shares.

The Company has the right, exercisable immediately following the end of the Conversion Period (prior to any extension thereof) and up to the second anniversary of the date of the initial issue of the 110,000,000 Preference A Shares, to require the mandatory conversion of all or part of the outstanding Preference A Shares into new Ordinary Shares, or to require the redemption of all or part of the outstanding Preference A Shares at the amount equal to all amounts paid up or credited as paid up on the Preference A Shares. In the event that the Conversion Period is extended, the Company's right to require the mandatory conversion of the outstanding Preference A Shares shall be deferred and shall be exercisable immediately following the end of the Conversion Period (as extended) and for a period of 10 business days thereafter.

The Conversion Period in respect of the initial period prior to the extension thereof may be extended for a period of 12 months in the event that (a) the dealing in the Ordinary Shares remain suspended, or (b) Weina Holdings (or its nominee) was unable to exercise, or was prevented from exercising its conversion rights as to all of the outstanding Preference A Shares due to the undertaking restrictions set out in the Agreement (please refer to the section under the heading "SHAREHOLDING STRUCTURE"), during the period commencing immediately after the end of the Conversion Period (prior to the extension thereof) and for a period of 10 business days thereafter.

Following the extension of the Conversion Period by a period of 12 months as explained in the above and in the event that (a) the dealing in the Ordinary Shares remain suspended, or (b) Weina Holdings remains unable to exercise, or prevented from exercising its conversion rights as to all of the outstanding Preference A Shares due to the undertaking restrictions, during the period commencing immediately after the end of the Conversion Period (as extended) and for a period of 10 business days thereafter, the Company shall, during such period, take one of, or a combination of, the following actions:

(1) to exercise the right of the Company to redeem all or part of the outstanding Preference A Shares; or

(2) to further extend the Conversion Period (as extended) to such date, during which the Company may exercise the right to redeem all or part of the outstanding Preference A Shares, until the following:

   (a) in the case of a continued suspension of the dealing in the Ordinary Shares only, the day on which the suspension of the dealing in the Ordinary Shares shall be lifted and dealing shall be resumed;

   (b) in the case of the non-exercise of the conversion rights due to the undertaking restrictions only, the day on which the public float of the Ordinary Shares is at a level such that all of the outstanding Preference A Shares may be converted and the minimum public float requirement under rule 8.08 of the Listing Rules will be maintained; or

   (c) in the case of both the continued suspension of the dealing in the Ordinary Shares and the non-exercise of the conversion rights due to the undertaking restrictions, the day on which the suspension of the dealing in the Ordinary Shares shall be lifted and dealing shall be resumed and the public float of the Ordinary Shares is at a level such that all of the outstanding Preference A Shares may be converted and the minimum public float requirement under rule 8.08 of the Listing Rules will be maintained,

   or, in any event by no later than 10 business days thereafter, the Company shall require the conversion of all or part of the outstanding Preference A Shares,

the Company shall have the right to choose to take one or all of the above actions (as to items (1) and (2)) with respect to such number of the outstanding Preference A Shares but such right shall be exercised such that all of the outstanding Preference A Shares shall be accounted for.

*Redemption*

The Company has the right, exercisable during the Conversion Period (including the extension thereof) to require the redemption of all or part of the Preference A Shares at the amount equal to all amounts paid up or credited as paid up on the Preference A Shares.

*Dividend*

Each Preference A Share is entitled to be paid a fixed cumulative preferential dividend in priority to any payment to the holders of Ordinary Shares at the rate of 3.5% per annum on the amount paid up or credited as paid up in respect of the Preference A Shares at HK$0.40 each.

*Non-Voting*

The holders of the Preference A Shares shall be entitled to receive notices of general meetings and to attend but not to vote.

*Transferability*

The Preference A Shares shall not be transferable.

*Conversion Price*

The conversion price of HK$0.40 for the conversion of each Preference A Share into one Ordinary Share was determined after arm's length negotiations.

The conversion price of HK$0.40 represents a premium of approximately 21.2% to the closing price of HK$0.33 per Ordinary Share as quoted on the Stock Exchange on 15 March 2006 (being the last trading day prior to the suspension of trading of the Ordinary Shares), and a premium of approximately 21.2% to the average closing price of approximately HK$0.33 per Ordinary Share of the 5 trading days up to and including 15 March 2006.

**Post Completion**

After Completion, the Company will make an application to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the aggregate 110,000,000 Ordinary Shares which may be issued pursuant to the exercise of conversion rights attaching to the Preference A Shares. No conversion of the Preference A Shares into Ordinary Shares shall be made until such approval is granted by the Listing Committee of the Stock Exchange.

**SHAREHOLDING STRUCTURE**

The table below sets out the shareholding structure of the Company immediately before and after the full conversion of the Preference A Shares (the "Conversion") and the conversion of the Issued Convertible Shares and Option Convertible Shares (as the case may be). Pursuant to the Subscription and Option Agreement dated 26 May 2006 entered into between the Company, Weina BVI and Mr. Tsim, the Company had issued to Weina BVI 250,000,000 Issued Convertible Shares that may be convertible into 250,000,000 Ordinary Shares (subject to adjustment) and Weina BVI had granted an option to the Company to require Weina BVI to subscribe for 100,000,000 Option Convertible Shares that may be convertible into 100,000,000 Ordinary Shares (subject to adjustment). Further details of the Issued Convertible Shares and the Optional Convertible Shares are set out in the Company's announcement dated 26 May

2006. Furthermore, Weina BVI had undertaken to the Company that Weina BVI will not exercise the conversion rights as to such number of Issued Convertible Shares and Option Convertible Shares (as the case may be) if upon the conversion thereof, the percentage of the Ordinary Shares held by the public drops below the minimum public float requirement under rule 8.08 of the Listing Rules.

| | **Existing shareholding structure** *No. of Ordinary Shares (%)* | **Upon Completion** *No. of Ordinary Shares (%)* | **After Completion and full Conversion** *No. of Ordinary Shares (%)* | **After Completion and full Conversion and the partial conversion* of the Issued Convertible Shares and Option Convertible Shares** *No. of Ordinary Shares (%)* |
|---|---|---|---|---|
| Weina Holdings (or its nominee)[Note] | – | – | 110,000,000<br>23.91% | 110,000,000<br>(21.74%) |
| Weina BVI [Note] | – | – | – | 45,904,000<br>9.07% |
| Sub-total | – | – | 110,000,000<br>23.91% | 155,904,000<br>(30.82%) |
| Otto Link Technology Ltd. | 126,700,000<br>(36.2%) | 126,700,000<br>(36.2%) | 126,700,000<br>(27.54%) | 126,700,000<br>(25.04%) |
| Mr. Chak Joaquin Emilio Kin Man | 96,824,000<br>(27.66%) | 96,824,000<br>(27.66%) | 96,824,000<br>(21.05%) | 96,824,000<br>(19.14%) |
| Public | 126,476,000<br>(36.14%) | 126,476,000<br>(36.14%) | 126,476,000<br>(27.50%) | 126,476,000<br>(25%) |
| Total | 350,000,000<br>(100%) | 350,000,000<br>(100%) | 460,000,000<br>(100%) | 505,904,000<br>(100%) |

* *Assumes partial conversion of the Issued Convertible Shares and Option Convertible Shares (as the case may be) issued to Weina BVI to ensure the minimum public float of 25% as prescribed under the Listing Rules is maintained.*

*Note:* Each of Weina BVI and Weina Holdings is ultimately and beneficially owned by Mr. Tsim and his spouse as to 70% and 30%.

## IMPLICATIONS UNDER THE CODE

The aggregate shareholding of Weina BVI and Weina Holdings (or its nominee) in the Company following full Conversion and partial conversion of the Issued Convertible Shares and Option Convertible Shares (as the case may be) would exceed 30% of the then issued Ordinary Shares and, accordingly, Weina BVI and Weina Holdings would be under an obligation to make a conditional mandatory offer under the Code for all of the then Ordinary Shares not held by them or their parties acting in concert. In the event that Weina BVI and Weina Holdings are required to make a conditional mandatory offer under the Code, this may result in a change of control of the Company.

## MINIMUM PUBLIC FLOAT REQUIREMENT

Pursuant to the Agreement, Weina Holdings has undertaken to the Company that, subject to Completion, Weina Holdings will not exercise the conversion rights as to such number of Preference A Shares if upon the conversion thereof, the percentage of the Ordinary Shares held by the public drops to below the minimum public float requirement under rule 8.08 of the Listing Rules. If, at the end of the Conversion Period (prior to the extension thereof) there are Preference A Shares that remain outstanding, and Weina Holdings or its nominee was unable to exercise, or was prevented from exercising, its conversion rights at any time during the Conversion Period (prior to the extension thereof) due to the restrictions contained in the undertaking, Weina Holdings or its nominee and the Company may agree to extend the Conversion Period for a period of 12 months (subject to a further extension as disclosed in the paragraph under the Sub-heading "Conversion").

## DILUTION EFFECT

Given that upon conversion of the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares, Weina Holdings, Weina BVI and their respective associates will own more than 50% of the issued ordinary share capital of the Company as enlarged by such conversion, the Company is required to disclose by way of an announcement on the website of the Stock Exchange only all relevant details of the conversion of the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares in the following manner:

(i) the Company will make a monthly announcement (the "Monthly Announcement") on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month following the commencement of the Conversion Period and will include the following details in a table:

   a. whether there is any conversion of the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares during the relevant month (if so, details of the conversion(s), including the conversion date, number of conversion shares issued, and conversion price for each conversion or, if there is no conversion during the relevant month, a negative statement to that effect);

   b. the number of outstanding Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares after any conversions;

c. the total number of Ordinary Shares issued pursuant to other transactions, including Ordinary Shares issued pursuant to the exercise of options under any share option scheme(s) of the Company; and

d. the total issued share capital of the Company as at the commencement and the last day of the relevant month;

(ii) in addition to the Monthly Announcement, if the cumulative amount of the Ordinary Shares issued pursuant to the conversion of the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares (as the case may be) (and thereafter in multiples of 5%), the Company will make an announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares (as the case may be) up to the date on which the total amount of Ordinary Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares (as the case may be); and

(iii) if the Company forms the view that any issue of the Ordinary Shares under the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares will trigger a disclosure obligation under Rule 13.09 of the Listing Rules, then the Company will be obliged to make such a disclosure regardless of the issue of any other announcement in relation to the Preference A Shares.

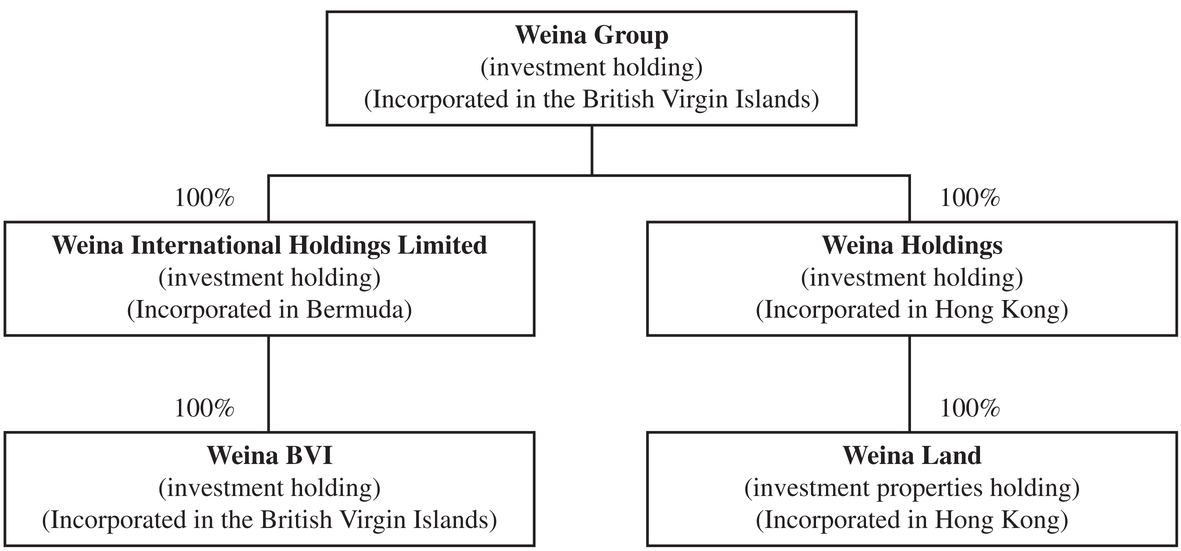
If the Preference A Shares, the Issued Convertible Shares and the Option Convertible Shares have been fully converted or redeemed, the Monthly Announcement requirements set out above will cease immediately.

**INFORMATION ON WEINA HOLDINGS**

Weina Holdings is engaged in the business of property investment holding and is ultimately owned by Mr. Tsim and his spouse as to 70% and 30%, respectively. As at the Latest Practicable Date, Weina BVI is a holder of 250,000,000 Issued Convertible Shares that were issued by the Company on 30 June 2006 and had granted an option to the Company to require Weina BVI during the period commencing 1 April 2007 and ending on 1 June 2009 to subscribe for an additional 100,000,000 Option Convertible Shares of the same class; and this class of preference shares is different to the Preference A Shares and the principal differences between the two classes of shares are the conversion period and rights of redemption; which in the case of the Issued Convertible Shares and Option Convertible Shares, the conversion period commences on the earliest date of 1 April 2007 and terminates on the date being the 10 business days prior to 30 June 2009, subject to extension, and the right of redemption is exercisable at the end of the conversion period (including the end of the conversion period as extended) and details of which are set out in the Company's announcement dated 26 May 2006. As at the Latest Practicable Date, Mr. Tsim and his spouse do not hold any Ordinary Shares in the Company. To the best of the knowledge of the board of Directors of the Company, the Vendor and its ultimate owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Mr. Tsim, aged 59, is the Chairman of Weina Group. Weina Group and its group of companies (of which Weina BVI, Weina Holdings and Weina Land form part of) were founded by Mr. Tsim in 1990 and are engaged in manufacturing and property investments. Mr. Tsim has over 30 years' experience in manufacturing and property investments. Weina Holdings is a direct wholly owned subsidiary of Weina Group and Weina Land is a direct wholly owned subsidiary of Weina Holdings and an indirect wholly owned subsidiary of Weina Group. Weina BVI is an indirect wholly owned subsidiary of Weina Group and is a fellow subsidiary of Weina Holdings and Weina Land. The chart below sets out the shareholding relationships between these companies:–

**Weina Group – Group Structure**




## REASONS FOR THE ACQUISITION

The principal business activities of the Group are investment holding, design, supply and integration of automation and control system, and the trading of natural resources such as iron ore, iron sand, coal and other natural mineral products. It is the present intention of the Directors to diversify into property investment holding and the Directors consider such diversification will broaden the revenue base of the Company.

The Directors consider that the Acquisition is in the interests of the Company and its Shareholders as a whole and the terms of which are fair and reasonable.

**EFFECTS ON EARNINGS, ASSETS AND LIABILITIES OF THE GROUP**

The Group's audited gross profit for the year ended 30 June 2006 was approximately RMB8.4 million and the Group incurred a loss attributable to Shareholders of approximately RMB247.5 million for the same year. As at 30 June 2006, audited total assets of the Group were approximately RMB183.9 million.

Following Completion, Weina Land will become a wholly owned subsidiary of the Company and the accounts of Weina Land will be consolidated into the consolidated accounts of the Group on a 100% basis.

The principal assets of Weina Land are commercial properties leased as offices and of the seven properties held, six of which are currently leased, generating an aggregate annual rental income of approximately HK$1.38 million for the Group (to be increased by approximately $0.2 million beginning next year in light of the leasing of the remaining vacant property). Such rental income will have a positive impact on the turnover and income of the Group.

As set out in Appendix IV to the circular, based on the audited consolidated balance sheet of the Group as at 30 June 2006, the pro forma financial effect on such balance sheet is that (i) net assets of the Group would be increased by approximately 160% from approximately RMB29.3 million to approximately RMB76.1 million; and (ii) total assets and total liabilities would be increased from approximately RMB183.9 million to approximately RMB231.1 million and from approximately RMB154.6 million to approximately RMB155.0 million respectively.

As the Consideration will be satisfied by the issue of Preference A Shares, other than expenses associated with the Acquisition, the Completion of which is not expected to have any effect on the cash outflow of the Group. The rental income mentioned above, however, will have a positive impact on the Group's cash inflow following Completion.

**CONDITIONS OF THE AGREEMENT AND COMPLETION**

The Agreement is conditional upon the following conditions being met, satisfied or, in the case of condition numbered (2), waived (in whole or in part) on or before 31 January 2007:

(1) the Independent Shareholders of the Company passing at the EGM the necessary resolutions approving the Acquisition and all transactions contemplated thereunder including the issue of the Preference A Shares;

(2) in respect of the banking facilities secured by the Mortgage over the properties referred to in item (i) and (v) under the heading "Property Portfolio" and such Mortgage, the Company having obtained the relevant consents and approvals for the transactions contemplated herein from the relevant bank;

(3) Weina Land having maintained an amount of cash of not less than HK$364,412.55 in readily available funds at Completion, such amount representing the rental deposits for the relevant properties that are subject to their respective tenancies; and

(4) the calculation and determination, to the satisfaction of the Company of the rents to be received and all outgoings to be discharged by Weina Land in respect of each of the properties under the heading "Property Portfolio" from the date of the Agreement up to and inclusive

of the actual day of Completion (calculated on a daily basis) and, as from but inclusive of that day, all outgoings to be discharged by Weina Land, such rents and outgoings to be apportioned before and after Completion.

Completion of the Agreement shall take place on the next Business Day following the day of the fulfilment of the above conditions (or waiver of the relevant conditions) of the Agreement.

At Completion, 110,000,000 new Preference A Shares will be issued to Weina Holdings (or its nominee). Furthermore, the following will be entered into at Completion:

(i) a deed of assignment to be entered into between the Company, Weina Holdings and Weina Land in relation to the assignment of the Shareholder's Loan by Weina Holdings to the Company; and

(ii) a tax deed to be entered into between Mr. Tsim, Weina Holdings and the Company in relation to the indemnification of certain tax liabilities of Weina Land on the part of Mr. Tsim and Weina Holdings in favour of Weina Land.

Following Completion, it is currently expected that there will be no change to the existing Directors or management of the Company as a result of, or in connection with, the Acquisition. Since 26 May 2006, being the date of announcement in relation to the Issued Convertible Shares, there has been no change in the members of the senior management of the Company as a result of the issuance of the Issued Convertible Shares.

## LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction and a connected transaction for the Company pursuant to Chapter 14 and rule 14A.13(1)(b)(i) of the Listing Rules respectively and, hence, the Acquisition is subject to the approval of the Independent Shareholders.

An Independent Board Committee has been formed to advise the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole. AMS, the independent financial adviser, has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

In view of the above, the Company will seek the approval of the Independent Shareholders in relation to the Agreement. It is proposed that an ordinary resolution will be proposed at the EGM to be held for the Independent Shareholders to approve by way of a poll the Agreement and the Acquistion contemplated thereunder and for the reasons set out below, Mr. Tsim's son will abstain from voting on such ordinary resolution.

## RE-ELECTION OF DIRECTOR

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Poon Lai Yin, Michael, who was appointed by the board of Directors to fill a casual vacancy on 29 November 2006, shall hold his directorship only until the EGM and shall be eligible to offer himself for re-election at the EGM.

As at the Latest Practicable Date, the board of Directors comprise four executive directors, namely, Dr. Sze Kwan, Mr. Siek Fui, Ms. Chan Siu Chu Debby and Mr. Liu Ping; one non-executive director, Mr. Gerard McMahon and three independent non-executive directors, namely, Mr. Lau Sai Chung, Mr. Ng Kwok Chu, Winfield and Mr. Poon Lai Yin, Michael.

Mr. Poon Lai Yin, Michael was appointed as an independent non-executive director by the board of Directors in compliance with the requirement of the Listing Rules. The Directors therefore recommend the Shareholders to vote for the proposed resolution regarding the election of Mr. Poon Lai Yin, Michael as Director.

Brief biographical details of Mr. Poon Lai Yin, Michael is set out in Appendix VI to this circular.

**EXTRAORDINARY GENERAL MEETING**

A notice convening the EGM to be held at Central Plaza Executive Club, P Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 28 December 2006 at 10:00 a.m. at which two ordinary resolutions shall be proposed to the Independent Shareholders to approve the Acquisition and the re-election of Director set out above is set out on pages 131 to 132 of this circular. The Company has been informed by the Vendor that Mr. Tsim's son, who is a director of each of Weina Land, Weina Group, Weina International Holdings Limited and Weina BVI, is the beneficial Shareholder of 100,000 Ordinary Shares, and that such Ordinary Shares were acquired prior to the issuance of the Issued Convertible Shares to Weina BVI and Mr. Tsim's son will abstain from voting on resolution No. (1) in respect of approving the Acquisition. Save as disclosed above, the Vendor and its associates (as defined in the Listing Rules) do not have any shareholding interest in the Company. No Shareholders are required to abstain from voting on resolution 2 in respect of approving the proposed re-election of Director.

A form of proxy use at the EGM is enclosed. If your are unable to attend the EGM in person, you are requested to complete and return the form of proxy to the principal place of business of the Company in Hong Kong at Suite 1304, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for 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.

**RECOMMENDATION**

Taking into consideration of the principal factors and reasons set out above, the Directors consider that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the Independent Non-executive Directors, whose recommendation is set out in the letter from the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the ordinary resolution No. (1) to be proposed at the EGM to approve the Agreement and the Acquisition contemplated thereunder.

The Directors also consider the re-election of Director set out above is in the interests of the Company and Shareholders as a whole.

Accordingly the Directors recommend the Shareholders to vote in favour of resolution No. (2) at the EGM.

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 18 of this circular. Your attention is also drawn to the letter of advice from AMS which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Acquisiton, details of which are set out on pages 19 to 27 of this circular.

**ADDITIONAL INFORMATION**

Your attention is also drawn to the addition information set out in Appendices I to VI and the notice of the EGM of, this circular.

Yours faithfully,
For and on behalf of
**The Quaypoint Corporation Limited**
**Gerard McMahon**
*Chairman*

# THE QUAYPOINT CORPORATION LIMITED
# 紀 翰 集 團 有 限 公 司*

*(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 2330)

11 December 2006

*To the Independent Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARES IN A COMPANY WITH INTERESTS IN PROPERTIES

We refer to the circular dated 11 December 2006 of which this letter forms part. Terms defined in the circular shall have the same meanings in this letter unless the context otherwise requires.

As the Directors who are independent of the parties to the Acquisition, we have been appointed as members of the Independent Board Committee to consider the terms of the Acquisition and to advise you as to whether, in our opinion, the terms of the Acquisition are fair and reasonable and in the interests of the Company and its Shareholders as a whole. AMS has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Acquisition. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from AMS on pages 19 to 27 of the circular.

We also wish to draw your attention to (i) the letter from the Board; (ii) the detailed terms of the convertible redeemable non-voting Preference A Shares set out in Appendix I to the circular; and (iii) the additional information set out in the appendices to the circular.

Having taken into account the terms of the Acquisition and the advice of AMS, we consider the terms of the Acquisition to be fair are reasonable and in the interests of the Company and its Shareholders as a whole, accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution No. (1) to approve the Acquisition.

Yours faithfully,
For and on behalf of
The Independent Board Committee
**LAU Sai Chung** **NG Kwok Chu, Winfield** **POON Lai Yin, Michael**
*Independent Non-Executive Directors*

* *for indentification purposes only*

*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from AMS for inclusion in this circular.*

博資財務顧問有限公司
**AMS Corporate Finance Limited**

20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central, Hong Kong

11 December 2006

*To the Independent Board Committee*
*and the Independent Shareholders of The Quaypoint Corporation Limited*

Dear Sirs,

## MAJOR AND CONNECTED TRANSACTION

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 11 December 2006 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 18 November 2006, the Board announced that the Agreement was entered into on 17 November 2006 pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of Weina Land and to assign the Shareholder's Loan for an aggregate consideration of HK$44 million (the "Consideration"). The Consideration will be satisfied by the issue of Preference A Shares to the Vendor.

Pursuant to the Subscription and Option Agreement dated 26 May 2006, the Company had issued to Weina BVI 250,000,000 Issued Convertible Shares that may be convertible into 250,000,000 Ordinary Shares (subject to adjustment) and Weina BVI had granted an option to the Company to require Weina BVI to subscribe for 100,000,000 Option Convertible Shares that may be convertible into 100,000,000 Ordinary Shares (subject to adjustment). Further details of the Issued Convertible Shares and the Option Convertible Shares are set out in the Company's announcement dated 26 May 2006. The Vendor and Weina BVI are fellow subsidiaries of Weina Group of which the ultimate and beneficial owner is Mr Tsim and his spouse. Upon full conversion of the Preference A Shares and partial conversion of the Issued Convertible Shares and the Option Convertible Shares (taking into account the undertaking of Weina BVI to refrain from exercising its rights of conversion so as to maintain the minimum pubic float of the Company), Mr Tsim and his spouse will be interested in approximately 30.82% of the enlarged issued share capital of the Company and will become a controlling shareholder (as defined in the Listing Rules) of the Company. Accordingly, the Acquisition is deemed to be a connected transaction for the Company pursuant to rule 14A.13(1)(b)(i) of the Listing Rules, which is subject to the approval of the Independent Shareholders by way of a poll at the EGM. Mr Tsim's son, who is a director of each of Weina Land, Weina Group, Weina International Holdings Limited and Weina BVI, is the beneficial Shareholder of 100,000 Ordinary Shares and will abstain from voting on the resolution in respect of approving the Agreement at the EGM.

An independent board committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole and whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. 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 entering into of the Agreement is in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Agreement 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 Rule 13.84 of the Listing Rules.

**BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions and representations and the valuation report contained in the Circular and the information and representations provided to us by the Company, its advisers and the Directors. We have assumed that all information, representations and opinions provide, made or expressed by the Company or the Directors, as the case may be, that are contained or referred to in the Circular, and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be so at the date hereof or at the Latest Practicable Date (where expressed to be so). We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the Directors and the Company in the Letter from the Board have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Group or any parties to the Agreement and the markets in which they respectively operate.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### I. Background information and reasons for the Agreement

*a. Information on the Group*

The principal activities of the Group are investment holding, design, supply and integration of automation and control system, and the trading of natural resources such as iron ore, iron sand, coal and other natural mineral products. Set out below is the financial highlights of the Group for each of the two financial years ended 30 June 2005 and 2006 which are extracted from the Company's annual reports for the respective years:-

| | For the year ended 30 June | |
|---|---|---|
| | **2005** | **2006** |
| | *RMB' 000* | *RMB' 000* |
| | (Audited) | (Audited) |
| Turnover | 187,956 | 115,581 |
| Impairment loss on available-for-sale securities/investment in securities | 3,700 | 31,314 |
| Impairment loss on held-to-maturity securities | – | 150,704 |
| Loss attributable to Shareholders | 19,105 | 247,520 |
| Total net assets | 173,668 | 29,284 |
| Gearing ratio* | 32.9% | 58.4% |

* Gearing ratio was expressed as a percentage of total borrowings over total assets.

As revealed from the above, loss attributable to Shareholders for the year ended 30 June 2005 was approximately RMB19.1 million. According to the annual report 2005, the loss was mainly due to the slowdown in the growth of basic infrastructure projects in the mainland China as a result of the macroeconomic control measures in the country and the projects jointly developed by the Group with several multi-national corporations did not achieve the expected results.

The Group's turnover for the year ended 30 June 2006 dropped by 38.5% to approximately RMB115.6 million with the loss attributable to Shareholders increased to RMB247.5 million. According to the annual report 2006, certain litigations, details of which have been set out in the Company's announcement dated 25 May 2006 and under the heading "Litigation" in Appendix VI to this Circular, had a negative impact on the Group's automation business in the second half of the financial year 2006. Apart from the drop in turnover, the increase in loss attributable to Shareholders for the financial year 2006 was also resulted by the impairment loss on available-for-sale securities/investment in securities of approximately RMB31.3 million and the impairment loss on held-to-maturity securities of approximately RMB150.7 million. The impairment loss on available-for-sale securities/ investment in securities represented the full provision on the investment of 18.52% interest in Goldwiz Tongling of which the operations, as informed by the Directors, have been suspended since December 2005 due to a critical liquidity problem. Goldwiz Tongling has also received writs of summons from various parties. The impairment loss on held-to-maturity securities represented the full provision of a trust fund investment with interest of RMB150.7 million placed by two PRC subsidiaries of the Group with Kinghing Trust & Investment Co. Ltd in the PRC (the "Fund"). As informed by the Directors, Kinghing Trust & Investment Co. Ltd has subsequently been ordered by the relevant PRC authority to suspend its operations and the Fund has not yet been returned to the Group on the maturity date being May 2006. Further information of the Group's investments in the Fund was disclosed in the Company's announcement dated 25 May 2006.

The significant decrease in the Group's total net assets to approximately RMB29.3 million was mainly due to the full provision of the impairment losses on the investments totaling RMB182 million as discussed above. As a result, the gearing ratio rose to 58.4% despite the balance of bank borrowings dropped as at the year ended 30 June 2006 as compared to that of the previous year.

*b. Reasons for the Agreement*

As discussed with the Board, the Group's business and financing ability have been restricted by the poor financial performance in the financial years 2005 and 2006 and the prevailing litigations. The Company's ability to raise funds from the issue of Ordinary Shares is also restricted due to the suspension of the trading of the Ordinary Shares since March 2006. Details of the reasons for the suspension were set out in the Company's announcement dated 25 May 2006. The issue of the Preference A Shares may be one of the very few choices available to the Company to enhance the capital base of the Group given the current financial status of the Company and the suspension of the trading of the Ordinary Shares.

As discussed above, the Group's total net assets were significantly reduced mainly due to the full provision on its investments in Goldwiz Tongling and in the Fund. The Acquisition will increase the Group's tangible assets as well as the total net assets given that (i) the Consideration will be satisfied by the issue of Preference A Shares which will not involve any cash outflow and (ii) pursuant to the Agreement, the Shareholder's Loan of Weina Land will be assigned to the Group and hence, no additional liabilities will be incurred to the Group upon completion of the Agreement. The Directors advised that the properties to be acquired under the Agreement are unencumbered except two are currently mortgaged to a bank with no outstanding amount due and the banking facilities have now been cancelled. Upon Completion, the Company may seek additional bank finances by using these properties as collaterals if the Board considers it necessary.

The Directors also stated in the Letter from the Board that it is their present intention to diversify into property investment holding and the rentals to be received from the properties under the Agreement will provide the Group a steady income stream. As stated in the Letter from the Board, Weina Land is engaged in investment property holding and its principal assets are office premises in Tsimshatsui with a total saleable area of approximately 4,582 sq.ft (125.67 sq.m.) (the "Properties"). Details of the Properties are set out in the Letter from the Board and the valuation report contained in Appendix V to the Circular (the "Valuation Report"). All of the Properties, except for one which is currently vacant, are leased as offices to parties who are third parties independent of the Company and the connected persons (as defined in the Listing Rules) of the Company. The vacant property has just been leased pursuant to a provisional tenancy agreement entered into on 1 December 2006, which stipulates that the lease term is to begin on 21 December 2006.

Based on the Valuation Report, the respective tenancies of the currently leased Properties will be expired in the period from 31 March 2007 to 29 February 2008. Total monthly rentals of the Properties are approximately HK$0.12 million amounting to an estimated annual rental income of approximately HK$1.38 million for the Group (subject to renewal of the tenancies upon their expiry). Based on this and the Consideration of HK$44 million (fairness and reasonableness of the Consideration will be discussed below), the Properties are expected to provide a gross yield of approximately 3.1% per annum.

Given the fact that (i) the capital base of the Group will be enhanced upon Completion; (ii) the financing ability of the Company will be improved; and (iii) the underlying assets of the Acquisition are office premises located at prime locations which will provide the Group a steady income stream, we are of the view that the entering into the Agreement is in the interests of the Company and the Shareholders as a whole.

## II. Valuation of Weina Land

As stated in the Letter from the Board, the Consideration of HK$44 million has been agreed after arm's length negotiations between the Company and the Vendor with reference to (i) the aggregate value of HK$45 million for the Properties as determined by the valuation conducted on the Properties by Vigers Appraisal & Consulting Limited (the "Valuer") on 31 October 2006; (ii) the net asset value of Weina Land as at 31 August 2006; and (iii) the amount of the Shareholder's Loan. As set out in the Valuation Report, the Properties were valued at HK$45 million. The audited net asset value of Weina Land as at 31 March 2006 and 31 August 2006 was approximately HK$0.83 million and HK$2.2 million respectively. Pursuant to the Agreement, the Shareholder's Loan will be assigned to the Company upon Completion. In this regard, the Consideration represents a discount of HK$1 million or 2.2% to the aggregate value of the Properties.

As discussed above, the market value of the Properties held by Weina Land, of which its net asset value is principally based on, is the principal factor in the determination of the Consideration. We have discussed with the Valuer and understand that the valuation on the Properties which are held for investment purpose has been based on the comparison method with reference to comparable sales evidence and asking prices for comparable properties in the open market. Based on this, we consider that the methodologies applied by the Valuer are consistent with market practice and the underlying basis for the valuation of the Property is fair and reasonable. In this respect, we consider that the Consideration is fair and reasonable as far as the Independent Shareholders are concerned.

## III. Principal terms of the Agreement

*a. Consideration*

Pursuant to the Agreement, the Consideration will be satisfied by the issue to the Vendor or its nominees of 110,000,000 Preference A Shares which are convertible into 110,000,000 new Ordinary Shares during the Conversion Period at a conversion price of HK$0.40 (the "Conversion Price"). Details of the terms of the Preference A Shares are set out in Appendix I to the Circular.

Under the heading of "Information of the Group" in this letter, the Group had a gearing ratio of 58.4% as at 30 June 2006 as compared with 32.9% for the previous year. The current high gearing ratio and the prevailing litigations would render the Company difficult to seek additional financing by means of bank borrowings for the payment of the Consideration. Given this and the fact that the issuance of the Preference A Shares will not have an immediate dilution effect on the existing Shareholders as compared with other fund raising exercises such as share placing, we are of the view that to satisfy the Consideration by the issue of the Preference A Shares is in the interests of the Company and the Shareholders as a whole.

*b. Terms of the Preference A Shares*

The Preference A Shares are entitled to be paid a fixed cumulative preferential dividend in priority to any payment to the holders of Ordinary Shares at the rate of 3.5% per annum on the amount paid up or credited as paid up in respect of the Preference A Shares at the Conversion Price. After taking into account the best lending rate for Hong Kong Dollars as quoted by The Hongkong and Shanghai Banking Corporation, which is currently at 7.75% and the reasons for the Agreement, we consider that the dividend rate of the Preference Shares is fair and reasonable so far as the Independent Shareholders are concerned.

As stated in the Letter from the Board, the Conversion Price was determined after arm's length negotiations and represents:

(i) a premium of approximately 21.2% over the closing price of HK$0.33 per Ordinary Share as quoted on the Stock Exchange on 15 March 2006 (being the last trading day prior to the suspension of trading of the Ordinary Shares, the "Last Trading Day") and

(ii) a premium of approximately 21.2% over the average closing price of HK$0.33 per Ordinary Share of the five consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day.

As the Ordinary Shares has been suspended for more than eight months, we consider it inappropriate to assess the fairness and reasonableness of the Conversion Price by reference to the closing price of the Ordinary Shares prior to the suspension. In this respect, we have compared the Conversion Price to the net asset value per Ordinary Share. Based on the

Group's audited consolidated net asset value of RMB29.3 million and 350,000,000 Ordinary Shares in issue as at 30 June 2006, the net asset value per Ordinary Share was RMB0.08. The Conversion Price represents a premium of 400% over the audited net asset value per Ordinary Share as at 30 June 2006. We consider that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

We have reviewed the terms of the Preference A Shares as set out in Appendix I to the Circular and are of the view that the terms are in usual and normal commercial terms. Based on this and our analysis above, we consider that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

**IV. Financial effects of the Agreement**

*a. Income effect*

As mentioned above, the principal assets of Weina Land are office premises currently leased out with an aggregate monthly rental of approximately HK$0.12 million. This will provide the Group an estimated additional annual rental income of approximately HK$1.38 million (subject to renewal of the tenancies upon their expiry). The Group's annual rental income will be further increased by approximately HK$0.2 million in light of the leasing of the remaining vacant property.

*b. Liquidity and financial resources*

Given the Consideration will be satisfied by the issue of Preference A Shares, there will not be any significant cash outflow other than the expenses associated with the Acquisition. The rental income mentioned above will bring a positive cash inflow to the Group. Based on the unaudited pro-forma consolidated balance sheet, the current ratio of the Enlarged Group (being the ratio of current assets to current liabilities) will be 0.71 which is the same as that of the Group as at 30 June 2006.

*c. Net asset value*

According to the unaudited pro-forma balance sheet, the total net assets of the Enlarged Group will be increased from RMB29.3 million to approximately RMB76.1 million upon Completion.

Based on the above analysis, there will be an immediate positive impact on the financial position of the Enlarged Group upon completion of the Acquisition.

**V. Possible dilution effect on shareholding**

As mentioned above, there will not be any immediate dilution effect on the shareholding of the Company before conversion of the Preference A Shares. Upon full conversion of the Preference A Shares, 110,000,000 Ordinary Shares representing approximately 31.43% and 23.91% of the existing issued share capital and the then issued share capital as enlarged by the full conversion of the Preference A Shares respectively will be issued to the Vendor or its nominees. As mentioned above under the heading of "Introduction" in this letter, Weina BVI currently holds the Issued Convertible Shares and had granted an option to the Company to require Weina BVI to subscribe for 100,000,000 Option Convertible Shares that may be convertible into 100,000,000 Ordinary Shares (subject to adjustment). In order to maintain the public float of the Ordinary Shares at 25% as prescribed by the Listing Rules, Weina BVI had undertaken to the Company that Weina BVI will not exercise the conversion rights as to such number of Issued Convertible Shares and Option Convertible Shares if upon the conversion thereof, the percentage of the Ordinary Shares held by the public drops below the minimum public float requirement under rule 8.08 of the Listing Rules. In order to comply with such undertaking and upon full conversion of the Preference A Shares and partial conversion of the Issued Convertible Shares and Option Convertible Shares, Weina BVI and the Vendor will together hold up to an aggregate of approximately 30.82% of the then issued share capital of the Company as enlarged by the Ordinary Shares issued upon such conversion. Details of the shareholding structure immediately before and after such conversion are set out under the heading of "Shareholding Structure" in the Letter from the Board. Various measures may be taken by the Company to ensure compliance with the minimum public float requirement as set out under the headings of "Minimum public float requirement" and "Dilution effect" in the Letter from the Board.

Given the fact that (i) the issue of the Preference A Shares is to satisfy the Consideration which we consider to be in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Preference A Shares is fair and reasonable; and (iii) the shareholding of all the Shareholders will be diluted by the same magnitude proportionally to their respective shareholdings upon the conversion of the Preference A Shares, we are of the view that such dilution on the Shareholders' existing shareholding interests in the Company is acceptable.

## VI. RECOMMENDATION

In formulating our advice to the Independent Board Committee and the Independent Shareholders, we have considered the above principal factors and reasons, in particular, the following:-

1. The full provisions on the investments in the Fund and Goldwiz Tongling have an negative impact on the Group's financial position. The Company's high gearing ratio and continued suspension of the trading of the Ordinary Shares have restricted the Group's financing capabilities. Through the Acquisition, total net assets of the Enlarged Group will be increased and its financing capabilities will be improved accordingly.

2. The principal assets of Weina Land are office premises in prime locations, which have been stated at market value based on the valuation by the Valuer on a fair and reasonable basis.

3. The office premises to be acquired will provide the Group a steady income stream. The Group may enjoy improved rental yields when the leases are to be renewed in 2007 and 2008.

4. The Consideration will be satisfied by the issue of Preferences A Shares and thus the Acquisition will not have any adverse impact on the cashflow or working capital of the Group. The issue of the Preference A Shares will enhance the capital base of the Company.

5. The Acquisition will strengthen the financial position of the Enlarged Group.

Based on the above, we are of the opinion that the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole and the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Therefore, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolution to approve the Agreement at the EGM.

Yours faithfully,
For and on behalf of
**AMS Corporate Finance Limited**

**Alexander Tai**
*Managing Director*

The Preference A Shares to be issued pursuant to the Agreement shall confer on the holder(s) thereof the following rights and privileges.

## 1. INTERPRETATION

In these terms, unless the context otherwise requires, the following expressions shall have the following meanings:

| | |
|---|---|
| "**Auditor**" | the auditors for the time being of the Company or, if they are unable or unwilling to carry out any action requested of them pursuant to the terms of the Preference A Shares, such other firm of international accountants or a merchant or investment bank registered under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as shall be selected by the Company; |
| "**Business day**" | a day (other than Saturday or Sunday) on which licensed banks in Hong Kong are generally open for business; |
| "**Capital Distribution**" | any dividend or distribution of any nature whatsoever to Members (in their capacity as such) unless (and to the extent that) it is for an amount (in aggregate for each 12 months) not exceeding 75% of the Company's net profit after tax but before exceptional items for the immediately preceding financial year; |
| "**Company**" | The Quaypoint Corporation Limited; |
| "**Conversion Date**" | the business day immediately following the date of surrender of the certificates in respect of the Preference A Shares and delivery of a valid Conversion Notice; |
| "**Conversion Notice**" | notice that a Preference A Shareholder wishes to exercise his rights of conversion in respect of any Preference A Shares; |
| "**Conversion Period**" | subject to the Listing Committee of the Stock Exchange having granted the approval for the permission to deal in, and the listing of, such number of Shares arising on conversion, the period (a) from the day on which the trading of the Shares shall resume following the suspension in which the trading of the Shares is currently subject to (provided that such date shall be no later than the date being the one month prior to the end of the second anniversary of the issue of the Preference A Shares) to (b) the earlier of (x) the date of commencement of the voluntary or |

involuntary winding up of the Company and (y) the date being the 10 business days before the second anniversary of the date of initial issue of the Preference A Shares (where the context requires, the "**Initial Conversion Period**"), subject to the extension of 12 months in accordance with paragraph 4.8 (where the context requires, the "**Extended Conversion Period**") and a further extension of such period in accordance with paragraph 4.9.2 (where the context requires, the "**Further Extended Conversion Period**");

"**Conversion Price**" HK$0.40, subject to adjustment in accordance with the provisions of paragraph 5;

"**Holder**" a holder of Preference A Shares;

"**Preference A Shares**" the 110,000,000 Convertible Redeemable Preference A Shares of par value of HK$0.10 each in the capital of the Company to be issued by the Company on these terms;

"**Current Market Price**" while the Shares are listed on the Stock Exchange (whether the Shares are suspended or not), means in respect of an Share, as of any date, the average of the closing quotations published in the Stock Exchange's Daily Quotation Sheet for one Share for the last five dealing days ending on the dealing day (on which the Shares have traded) immediately preceding such date; provided that if, at any time during the said five dealing days, the Shares shall have been quoted cum-dividend or any other right which the Shares to be issued on conversion will not receive the benefit of, the Auditor shall determine what adjustment, if any, is required to be made to the average of the closing quotations and its determination of the Current Market Price shall be final and binding;

"**Final Redemption Date**" the second anniversary of the date of the initial issue of the Preference A Shares (where the context requires, the "**Initial Final Redemption Date**)" or as extended to such later date by the same period in which the Conversion Period shall be extended (where the context requires, the "**Extended Final Redemption Date**");

"**Listing Rules**" Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

| | |
|---|---|
| "**Mandatory Conversion Notice**" | notice that the Company wishes to exercise, at the end of the Conversion Period, the right to require the conversion of such Preference A Shares in accordance with paragraph 4.1; |
| "**Members**" | holders of Shares; |
| "**Preferential Dividend**" | has the meaning ascribed to it in paragraph 2.1; |
| "**Record Date**" | the date the relevant event occurs or, if the holders of Shares receive entitlements to participate in such event as at an earlier Record Date, such earlier Record Date; |
| "**Redemption Notice**" | notice that Preference A Shares are to be redeemed and the **Actual Redemption Date** shall be the date specified on the Redemption Notice; |
| "**Reference Amount**" | as of any date, the amount equal to all amounts paid up or credited as paid up on a Preference A Share (including any premium paid up or credited as paid up thereon); |
| "**Shares**" | fully paid ordinary shares of par value of HK$0.10 each in the capital of the Company; |
| **"Stock Exchange"** | The Stock Exchange of Hong Kong Limited |
| "**Subsidiary**" | a subsidiary (as that term is defined in the Hong Kong Companies Ordinance) of the Company. |

## 2. DIVIDEND

2.1 The Holder shall be entitled to be paid, out of the profits of the Company available for distribution, a fixed cumulative preferential dividend (the "Preferential Dividend"), in priority to any payment to the holders of ordinary shares, at the rate of 3.5% per annum on the amount paid up or credited as paid up thereon (including any premium paid up or credited as paid up thereon).

2.2 The Preferential Dividend shall be payable (subject to paragraph 2.3) in arrears on 31 March, 30 June, 30 September and 31 December in each year or, if any such date shall not be a business day, on the first business day immediately following that day. The Holder shall not be entitled to any Preferential Dividend for the period from the last Preferential Dividend payment date to the Conversion Date.

2.3 Subject to compliance with applicable law, no payment of Preferential Dividends on the Preference A Shares shall be required to be made unless at the relevant due date the Company has sufficient distributable reserves to cover the payment of such Preferential Dividends. The Company will take all reasonable actions required or permitted under the relevant laws to permit the payment or accrual of Preferential Dividends on the Convertible Redeemable Preference A Shares.

## 3. CAPITAL

3.1 On a liquidation, dissolution, winding up (whether voluntary or involuntary) or return or reduction of capital of the Company (other than by redemption of the Preference A Shares), the assets of the Company available for distribution among the Members shall be applied:

3.1.1 in priority to any payment to the holders of any other class of shares:

(A) first in paying to the Holder a sum equal to any arrears, deficiency or accrual of the Preferential Dividend thereon calculated down to the date of commencement of the liquidation, dissolution, winding up or return or reduction of capital of the Company, and to be payable irrespective of whether such dividend has been declared or earned or become due for payment or not; and

(B) secondly, an amount in repayment of capital equal to the amount paid up or credited as paid up on the Preference A Shares (including any premium paid up or credited as paid up thereon); and

3.1.2 after the repayment of the nominal amount of any other class of shares, any surplus assets then remaining shall be distributed pari passu among the holders of the Preference A Shares, any other preference shares issued by the Company and the Shares or a pro rata basis as if the Preference A Shares and any other preference shares issued by the Company had been converted into Shares in accordance with their terms of issue.

## 4. CONVERSION

4.1 Subject to and upon compliance with the provisions of this paragraph 4 and the right of the Company to redeem the Preference A Shares pursuant to paragraph 6, a Preference A Shareholder shall have the right, exercisable at any time during the Conversion Period, to convert Preference A Shares held by him into fully paid Shares equal to the then effective Reference Amount thereof divided by the Conversion Price in effect at the time of conversion. Subject to the provisions of paragraph 6 and paragraph 4.8, to the extent that, at the end of the Initial Conversion Period, all or part of the Preference A Shares have not been redeemed in accordance with paragraph 6.1 or the Company is prevented by law from redeeming all the Preference A Shares as contemplated under the provisions of paragraph 6.2, the Company shall have the right, exercisable following the end of the Initial Conversion Period and up to the Initial Final Redemption Date, to require the conversion of all such Preference A Shares into fully paid Shares equal to the then effective Reference Amount thereof divided by the Conversion Price in effect at the time of conversion. In the event that the Conversion Period is extended in accordance with paragraph 4.8, the right of the Company to require the conversion of the Preference A Shares as aforementioned shall be deferred and, subject to paragraph 4.9, shall be exercisable following the end of the Extended Conversion Period (as extended in accordance with paragraph 4.8) up to the Extended Final Redemption Date (as extended in accordance with paragraph 4.8).

4.2 The right to convert may be exercised in whole or in part (in multiples of not less than 5,000,000 Preference A Shares save in respect of the conversion pursuant to paragraph 4.9), by a Preference A Shareholder delivering the certificate for such shares to the Secretary of the Company with a duly completed Conversion Notice in respect of the whole or any part of his Preference A Shares as he may in the Conversion Notice specify, together with such other evidence (if any) as the Board may reasonably require to prove the title of the person exercising such right provided that no right of redemption in respect of such shares has been exercised and no Redemption Notice in respect of such shares has been delivered to the Holder. A Conversion Notice once delivered cannot be withdrawn unless with the prior written consent of the Company and in the event that a Redemption Notice in respect of the Preference A Shares that are subject to the Conversion Notice has been delivered to the Holder, the Conversion Notice shall become void to the extent of such number of Preference A Shares are subject to the Redemption Notice, if applicable, and for the avoidance of doubt, to the extent that such number of Preference A Shares that are not subject to the Redemption Notice, the Conversion Notice in respect of the relevant number of Preference A Shares shall remain valid. The Company shall, not later than 10 business days after the date of the Conversion Notice, despatch certificates, free of charge at the risk of the Holder, for Shares resulting from conversion and, if appropriate, certificates for any balance of the Preference A Shares remaining unconverted. Fractions of Shares arising on conversion will not be allotted and in lieu thereof the Company shall, if permitted by law, pay an amount equal to such amount of the Preference A Share as is not converted.

4.3 Conversion of the Preference A Shares may be effected in such manner as directors of the Company shall from time to time determine (subject to compliance with all relevant laws and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases) and, without prejudice to the generality of the foregoing may be effected by the redemption (whether from profits or from a fresh issue of Shares) at the same time of Preference A Shares at par.

4.4 The Shares which are issued on conversion shall be credited as fully paid and rank pari passu and form one class in all respects with the Shares then in issue.

4.5 The Company shall use its best endeavours to ensure that the Listing Committee of Stock Exchange grants permission to deal in, and listing of, all the Shares arising on conversion.

4.6 The Company shall ensure that it will have sufficient authorised but unissued Shares for the time being outstanding available to satisfy in full the aforesaid conversion rights.

4.7 The right to require the mandatory conversion of the Preference A Shares may be exercised by the Company by delivering to the Holder a duly completed Mandatory Conversion Notice in respect of such number of Preference A Shares and the Mandatory Conversion Notice may be delivered at any time from the next business day immediately following the end of the Conversion Period (or such extended period, as the case may be) up to the Final Redemption Date (or such extended period, where the Conversion Period as extended applies). The Holder shall, not later than 7 business days after the date of the Mandatory Conversion

Notice deliver the certificates for the relevant Preference A Shares to be converted to the Secretary of the Company and the Company shall, not later than 10 business days after the receipt of such certificates, despatch certificates for Shares resulting from conversion.

4.8 The Initial Conversion Period shall be extended for a period of 12 months in the event that (a) the dealing in the Shares remain suspended, or (b) the Holder was unable to exercise, or was prevented from exercising its conversion rights as to all of the outstanding Preference A Shares due to the undertakings made to the Company in the agreement dated 17 November 2006 entered into between the Company, Weina Holdings Limited and Mr. Tsim Wing Kong, during the period commencing immediately after the end of the Initial Conversion Period and ending on the Final Redemption Date (prior to the extension thereof).

4.9 Following the extension of the Conversion Period in accordance with paragraph 4.8 and in the event that (a) the dealing in the Shares remain suspended, or (b) the Holder was unable to exercise, or was prevented from exercising its conversion rights as to all of the outstanding Preference A Shares due to the undertaking restrictions referred to in paragraph 4.8, during the period commencing immediately after the end of the Extended Conversion Period (as extended in accordance with paragraph 4.8) and ending on the Extended Final Redemption Date (as extended in accordance with paragraph 4.8), the Company shall, during such period, take one of, or a combination of, the following actions:

4.9.1 to exercise the right of the Company to redeem all, or part, of the outstanding Preference A Shares in accordance with the provisions of paragraph 6; or

4.9.2 to extend the Extended Conversion Period to such date, during which the Company may exercise the right to redeem all or part of the outstanding Preference A Shares, until the following:

(a) in the case of a continued suspension of the dealing in the Shares only, the day on which the suspension of the dealing in the Shares shall be lifted and dealing shall be resumed;

(b) in the case of the non-exercise of the conversion rights due to the undertaking restrictions referred to in paragraph 4.8 only, the day on which the public float of the Shares is at a level such that all of the outstanding Preference A Shares may be converted and the minimum public float requirement under rule 8.08 of the Listing Rules will be maintained; or

(c) in the case of both the continued suspension of the dealing in the Shares and the non-exercise of the conversion rights due to the undertaking restrictions referred to in paragraph 4.8, the day on which the suspension of the dealing in the Shares shall be lifted and dealing shall be resumed or dealing has been resumed (as the case may be) and the public float of the Shares is at a level such that all of the outstanding Preference A Shares may be converted and the minimum public float requirement under rule 8.08 of the Listing Rules will be maintained,

the suspension of the dealing in the Shares shall be lifted and dealing shall be resumed and on such date or, in any event by no later than 10 business days thereafter, the Company shall require the conversion of all, or part, of the outstanding Preference A Shares into fully paid Shares equal to the then effective Reference Amount thereof divided by the Conversion Price in effect at the time of conversion, and in fulfilling the obligation to require the conversion of the Preference A Shares, the Company shall do all such things as the exercise of the right to require the mandatory conversion of the Preference A Shares as provided in paragraph 4.7,

the Company shall have the right to choose to take one or all of the above actions with respect to such number of the outstanding Preference A Shares but such right shall be exercised such that all of the outstanding Preference A Shares shall be accounted for.

**5. ADJUSTMENTS TO THE CONVERSION PRICE**

5.1 Upon the happening of any event on which the Conversion Price falls to be adjusted in accordance with this paragraph 5, the Conversion Price shall be adjusted as follows:

*Consolidation or Subdivision:*

5.1.1 If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal value of one Share immediately after such alteration; and
B is the nominal value of one Share immediately before such alteration.

Such adjustment shall become effective from the day following the Record Date of such alteration.

*Capitalisation of Profits or Reserves:*

5.1.2 If and whenever the Company shall issue any Shares credited as fully paid to the Members by way of capitalisation of profits or reserves, other than Shares paid up out of distributable profits or reserves and/or share premium account issued in lieu of the whole or any part of a cash dividend which the Members concerned would or could otherwise have received and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective from the day following the Record Date of the issue of such Shares.

*Capital Distributions:*

5.1.3 If and whenever the Company shall pay or make any Capital Distribution to the holders of Shares (except where the Conversion Price falls to be adjusted under sub-paragraph (5.1.2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such Capital Distribution by the following fraction:

$$\frac{A - B}{B}$$

where:

A is the Current Market Price of one Share on the Record Date of such Capital Distribution; and

B is the fair market value on the Record Date of such Capital Distribution, as determined in good faith by the Auditor, acting as an expert, of the portion of the Capital Distribution attributable to one Share.

Such adjustment shall become effective from the day following the Record Date of such Capital Distribution.

*Rights Issues of Shares/Options or Warrants over Shares:*

5.1.4 If and whenever the Company shall issue Shares to all or substantially all Members as a class by way of rights, or shall issue or grant to all or substantially all Members as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 80% of the Current Market Price per Share on the Record Date of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue or grant;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective from the day following the Record Date of the issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

*Rights Issues of Other Securities/Options or Warrants over Other Securities:*

5.1.5 If and whenever the Company shall (i) issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Members as a class by way of rights, or (ii) grant to all or substantially all Members as a class any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) by way of rights, or (iii) offer any preferential rights to subscribe for or purchase securities of a Subsidiary granted to all or substantially all holders of Shares upon an initial public offering of the securities of such Subsidiary where the rights of the holders of Shares are exercisable at a subscription or purchase price, as the case may be, which is less than that at which the securities are offered to the public or any other person, then in any such case the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the Record Date of such issue, grant or offer; and

B is the fair market value on the Record Date of such issue, grant or offer, as determined in good faith by the Auditor, of the portion of the rights attributable to one Share.

Such adjustment shall become effective from the day following the Record Date of the issue of the securities or grant or offer of such rights, options, warrants or preferential rights (as the case may be).

*Issues of Shares at less than Current Market Price:*

5.1.6 If and whenever the Company shall (i) issue (otherwise than as mentioned in paragraph 5.1.4 above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares), or (ii) issue or grant any options, warrants or other rights to subscribe for or purchase Shares; in each case at a price per Share which is less than 80% of the Current Market Price on the Record Date of such issue or grant the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A + B}{C}$$

where:

A is the number of Shares in issue immediately before the issue of such additional Shares;

B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and

C is the total number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe for or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the day following the Record Date of the issue of such Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

*Issues of Other Securities at less than Current Market Price:*

5.1.7 Save in the case of any issue of, or the granting of any option to require the subscription of, the Preference A Shares, or an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this paragraph 5.1.7, if and whenever the Company or any of its Subsidiaries (otherwise than as mentioned in paragraphs 5.1.4 to 5.1.6 above), or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity shall issue wholly for cash any securities which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per Share receivable by the Company which is less than 80% of the Current Market Price on the Record Date of the issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue (or grant);

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the rights of subscription attached to such securities would purchase at such Current Market Price per Share; and

C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the Record Date of the issue or grant of such securities.

*Modifications to Rights of Conversion:*

5.1.8 If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in paragraph 5.1.7 above (other than in accordance with the terms applicable to such securities) so that the consideration per Share is less than 80% of the Current Market Price on the Record Date for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the rights of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price;

C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate;

but giving credit in such manner as the Auditor shall, acting as an expert, consider appropriate for any previous adjustment under this sub-paragraph or paragraph (5.1.7) above.

Such adjustment shall become effective on the day following the Record Date for such modification of the rights of conversion, exchange or subscription attaching to such securities.

*Other Events:*

5.1.9 If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this paragraph 5.1, the Company shall, at its own expense and acting reasonably, request the Auditor to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (provided that the adjustment would result in a reduction in the Conversion Price) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph 5.1.9 if the Auditor is so requested to make such a determination, provided that where the circumstances giving rise to any adjustment pursuant to this paragraph 5.1 have already resulted or will result in an adjustment to the Conversion Price or where any other circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this paragraph 5.1 as may be advised by the Auditors to be in their opinion appropriate.

5.2 For the purpose of any calculation of the consideration receivable pursuant to sub-paragraphs 5.1.6 to 5.1.8, the following provisions shall apply:

5.2.1 the aggregate consideration receivable for Shares issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission or any expenses paid or incurred by the Company for any underwriting of the issue or otherwise in connection therewith; and

5.2.2 the aggregate consideration receivable for the Shares to be issued upon the conversion or exchange of any securities shall be deemed to be the aggregate consideration received or receivable by the Company for any such securities; and

5.2.3 the aggregate consideration receivable for the Shares to be issued upon the exercise of rights of subscription attached to any securities shall be deemed to be that part (which may be the whole) of the aggregate consideration received or receivable by the Company for such securities which is attributed by the Company to such rights of subscription or, if no part of such consideration is so attributed or a Preference A Shareholder so requires by notice in writing to the Company, the fair market value of such rights of subscription as at the Record Date for the terms of issue of such securities (as determined in good faith by the Auditor, plus in the case of each of 5.2.2 and 5.2.3 above, the additional minimum consideration (if any) to be received by the Company upon the conversion or exchange of such securities, or upon the exercise of such rights of subscription attached thereto (the consideration in all such cases to be determined subject to the proviso in paragraph 5.2.1); and

5.2.4 the consideration per Share receivable by the Company upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such securities shall be the aggregate consideration referred to in 5.2.2 or 5.2.3 above (as the case may be) converted into Hong Kong dollars if such consideration is expressed in a currency other than Hong Kong dollars at such rate of exchange as may be determined in good faith by the Auditor to be the spot rate prevailing at the close of business on the date of announcement of the terms of issue of such securities, divided by the number of Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate.

5.3 Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of the Company the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by the Auditor to be in their opinion appropriate in order to give such intended result.

5.4 No adjustment will be made to the Conversion Price:

5.4.1 when Shares or other securities (including rights or options) are issued, offered or granted pursuant to and in accordance with the terms of any Share scheme for employees of the Company or any of its Subsidiaries;

5.4.2 in respect of an issue by the Company of Shares or an issue by the Company or any of its Subsidiaries of securities convertible into or rights to acquire Shares in consideration in whole or in part for the acquisition of any other securities, assets or business;

5.4.3 if the Company makes an issue of Shares pursuant to a scrip dividend scheme where an amount of not less than the nominal amount of the Shares so issued is capitalised and the Current Market Price per Share is not more than 110% of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash;

5.4.4 if it would result in an increase in the Conversion Price (other than by reason of a consolidation of Shares); or

5.4.5 in respect of in any issue of, or the granting of any option to require the subscription of, the Preference A Shares.

5.5 If any doubt shall arise as to the appropriate adjustment to the Conversion Price, a certificate of the Auditor shall be conclusive and binding on all concerned save in the case of manifest or proven error.

5.6 On any adjustment, the resultant Conversion Price, if not an integral multiple of 1 Hong Kong cent, shall be rounded up or down to the nearest Hong Kong cent. Any adjustment not required to be made, and any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustments shall be given to the Holder as soon as practicable after the determination thereof.

5.7 If the Conversion Price is to be reduced so that, on conversion, Shares would fall to be issued at a discount to their par value, the Conversion Price shall be reduced to the par value, provided that if the par value is subsequently reduced, the Conversion Price shall be adjusted accordingly.

5.8 Whenever the Conversion Price is adjusted, the Company shall give notice to the Holder that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof) and shall at all times thereafter so long as any Preference A Share remains outstanding make available for inspection at its registered office in Hong Kong a signed copy of the certificate of the Auditor (if applicable) and a certificate signed by a director of the Company setting forth brief particulars of the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof.

## 6. REDEMPTION

6.1 Subject to compliance with any legislation applicable to the Company, the Company shall have the right, exercisable during the Conversion Period (including the extension thereof), to redeem all or part of the Convertible Redeemable Preference A Share(s) at the Reference Amount. The right to redeem all or part of the Preference A Shares may be exercised by the Company by delivering to the Holder a duly completed Redemption Notice in respect of such number of Preference A Shares to be redeemed and such Redemption Notice shall be dated (the "**Actual Redemption Date**") and may be delivered at any time during the Conversion Period (or such extended period as the case may be). Payment of the relevant redemption amount will be made to the Holder's nominated bank account or delivered to the Holder at an address in Hong Kong within 24 hours of the Actual Redemption Date or the next business day if the Actual Redemption Date falls on a day other than a business day. If any certificates so delivered to the Company shall include any Preference A Shares not redeemed on the occasion for which it is so delivered, the Company shall at the holders' risk issue, without charge, a balance certificate for such Preference A Shares. Subject to paragraphs 6.2 and 6.5, and for the avoidance of doubt, the Company shall have the right, exercisable following the end of the Conversion Period (or such extended period as the case may be) and up to the Final Redemption Date (or such extended period, where the Conversion Period as extended applies), to require the conversion of all or part of the Preference A Share(s) into fully paid Shares in accordance with the provisions of paragraph 4.

6.2 In the event that the Company is prevented by law from redeeming all the Preference A Shares it shall redeem such as it is able to redeem on a pro-rata basis between holders, and in respect of the balance, the cumulative dividend payable thereafter shall be 3.5% per annum payable quarter-annually and calculated on the aggregate of the Reference Amount thereof. The Company shall from time to time thereafter redeem, as soon as it is able so to do, such number of Preference A Shares as it is permitted by law to redeem, at a price equal to the Reference Amount calculated to the Actual Redemption Date.

6.3 If any Holder whose shares are liable to be redeemed under this paragraph 6 shall fail or refuse to deliver up the certificate for his shares, the Company may retain the redemption monies until delivery up of the certificate or of any indemnity in respect thereof satisfactory to the Company and shall within seven days thereafter pay (by cheque despatched at the holder's risk) the redemption monies to the relevant Holder. No Holder shall have any claim against the Company for interest on any redemption monies so retained.

6.4 In the event that the Conversion Period is extended in accordance with paragraph 4.8, the Company and the Holder shall agree and confirm a later date as the Final Redemption Date and the period of such extension shall be an equivalent period of time as that by which the Conversion Period is extended by in accordance with paragraph 4.8 as agreed between the parties.

6.5 In the event that the dealing in the Shares remain suspended at the time of the exercise (or immediately prior thereto) of the right to require the conversion of the Preference A Shares on the part of the Company during the period commencing after the end of the Extended Conversion Period and ending on the Extended Final Redemption Date (as extended), subject to paragraph 4.9, the Company shall have the right exercisable during such period to redeem all, or part, of the outstanding Preference A Shares in accordance with paragraph 4.9. The Preference A Shares may be redeemed by the Company by delivering to the Holder a duly completed Redemption Notice in respect of such number of Preference A Shares to be redeemed and such Redemption Notice may be delivered at any time from the next business day immediately following the end of the Extended Conversion Period up to the Extended Final Redemption Date. Payment of the relevant redemption amount will be made to the Holder's nominated bank account or delivered to the Holder at an address in Hong Kong within 24 hours of the Extended Final Redemption Date or the next business day if the Extended Final Redemption Date falls on a day other than a business day. For the avoidance of doubt, the provisions of paragraphs 6.2 and 6.3 shall apply in respect of the obligations of the Company to redeem the Preference A Shares.

## 7. NON-VOTING AND NON TRANSFERABLE

7.1 The Holder shall be entitled to receive notices of general meetings and to attend but not vote.

7.2 The Preference A Shares shall not be transferable.

## 8. GENERAL

8.1 Unless and until all outstanding Preferential Dividends have been paid, the Company shall not pay any dividend or distribute any profits or reserve any amount in the Company's funds for the purpose of making such payment or distribution, or redeem or purchase the shares of any other class of the Company's share capital.

8.2 Any Preference A Shares redeemed shall be treated as cancelled on redemption and the amount of the Company's issued share capital shall, accordingly, be diminished by the nominal amount of those shares. The preference share capital existing as a consequence of such redemption of any of the Preference A Shares shall pursuant to the authority hereby given and subject to all applicable laws be converted, subdivided and/or consolidated into shares of any other class of share capital into which the authorised share capital of the Company is or may at that time be divided of a like nominal amount (or as nearly as may be) as the shares of such class then in issue or into unclassified shares of the same nominal amount as the Preference A Shares, as the Directors may determine.

8.3 The Company shall send to the Holder a copy of every document sent by the Company to the holders of Shares at the time the same is sent to the holders of the Shares.

8.4 Save as referred to in these terms, the Preference A Shares shall not confer on the holder thereof any pre-emptive subscription rights in relation to issues of further shares or other securities in the capital of the Company.

8.5 The Company shall not in any way modify or amend these terms without the prior written approval of the holders of the outstanding Preference A Shares.

8.6 The provisions contained in the constitutional documents of the Company relating to the serving of notices or other documents by or on shareholders shall apply equally to the serving of notices or other documents by or on the Holder.

## 1. SUMMARY OF FINANCIAL RESULTS

The following is a summary of the audited consolidated results for the financial years ended 30 June 2004, 2005 and 2006 and the audited consolidated balance sheets as at 30 June 2004, 2005 and 2006 respectively, extracted from the audited financial statements of the Group:

**Consolidated Income Statement**
*For the year ended 30 June*

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 115,581 | 187,965 | 359,172 |
| Cost of sales | (107,172) | (158,931) | (310,139) |
| Gross profit | 8,409 | 29,034 | 49,033 |
| Other revenue | 104 | 1,234 | 806 |
| Other income | 1,885 | 31 | – |
| Distribution costs | (316) | (1,941) | (314) |
| Administrative expenses | (50,563) | (32,349) | (31,362) |
| Impairment loss on available-for-sale securities/ investment in securities | (31,314) | (3,700) | – |
| Impairment loss on held-to-maturity securities | (150,704) | – | – |
| Other operating expenses | (15,325) | (376) | (335) |
| Finance costs | (9,690) | (7,940) | (3,024) |
| (Loss) profit from operations | (247,514) | (16,007) | 14,804 |
| Income tax | (6) | (3,098) | (3,883) |
| (Loss) profit attributable to equity shareholders | (247,520) | (19,105) | 10,921 |
| (Loss) profit per share | | | |
| Basic | (RMB70.72 cents) | (RMB5.46 cents) | RMB3.12 cents |
| Diluted | N/A | N/A | N/A |

**Consolidated Balance Sheet**
*At 30 June*

| | 2006 RMB'000 | 2005 RMB'000 (restated) | 2004 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 2,796 | 3,581 | 4,909 |
| Property under development | 72,285 | 66,263 | 68,291 |
| Available-for-sale securities/ Investment in securities | – | 31,916 | 35,616 |
| Prepaid lease payment | 1,987 | 2,028 | – |
| Software development costs | – | – | 9,200 |
| **Total non-current assets** | 77,068 | 103,788 | 118,016 |
| **Current assets** | | | |
| Inventories | 2,459 | 4,817 | 8,360 |
| Trade receivables | 1,679 | 30,387 | 86,349 |
| Bills receivable | – | 9,435 | 1,123 |
| Prepayments, deposits and other receivables | 5,939 | 17,999 | 118,728 |
| Held-to-maturity securities/ Trust fund investments | – | 150,704 | – |
| Cash and bank balances | 96,765 | 14,487 | 22,549 |
| **Total current assets** | 106,842 | 227,829 | 237,109 |
| **Current liabilities** | | | |
| Trade payables | 2,642 | 11,191 | 47,356 |
| Bills payable, secured | – | 18,851 | 48,262 |
| Provision, accruals and other payables | 34,423 | 6,728 | 6,843 |
| Receipts in advance | 612 | 3,260 | – |
| Due to a director | 1,025 | – | 8,330 |
| Current portion of interest-bearing borrowings | 4,798 | 2,000 | 6,328 |
| Short-term bank loan | 97,912 | 100,000 | 30,000 |
| Taxation payable | 8,534 | 8,764 | 5,666 |
| Warranty provision | – | – | 27 |
| **Total current liabilities** | 149,946 | 150,794 | 152,812 |
| **Net current (liabilities) assets** | (43,104) | 77,035 | 84,297 |
| **Total assets less current liabilities** | 33,964 | 180,823 | 202,313 |
| **Capital and reserves** | | | |
| Ordinary share capital | 37,100 | 37,100 | 37,100 |
| Convertible redeemable preference shares | 104,000 | – | – |
| Reserves | (111,816) | 136,568 | 155,673 |
| **Total equity** | 29,284 | 173,668 | 192,773 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 4,680 | 7,155 | 9,540 |
| | 33,964 | 180,823 | 202,313 |

## 2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated income statement of the Group for the years ended 30 June 2005 and 2006, the audited consolidated balance sheet of the Group as at 30 June 2006 and 2005 respectively, the audited balance sheet of the Company as at 30 June 2006 and 2005 respectively, the audited consolidated statement of changes in equity of the Group for the years ended 30 June 2005 and 2006 and the audited consolidated cash flow statement of the Group for the years ended 30 June 2005 and 2006, together with accompanying notes extracted from the 2006 annual report of the Company:

**Consolidated Income Statement**
*For the year ended 30 June 2006*

| | Note | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|---|
| Turnover | 4 | 115,581 | 187,965 |
| Cost of sales | | (107,172) | (158,931) |
| Gross profit | | 8,409 | 29,034 |
| Other revenue | 4 | 104 | 1,234 |
| Other income | | 1,885 | 31 |
| Distribution costs | | (316) | (1,941) |
| Administrative expenses | | (50,563) | (32,349) |
| Impairment loss on available-for-sale securities/investment in securities | | (31,314) | (3,700) |
| Impairment loss on held-to-maturity securities | | (150,704) | – |
| Other operating expenses | | (15,325) | (376) |
| Finance costs | 7 | (9,690) | (7,940) |
| Loss from operations | 6 | (247,514) | (16,007) |
| Income tax | 10 | (6) | (3,098) |
| Loss attributable to equity shareholders | 31 | (247,520) | (19,105) |
| Loss per share | | | |
| Basic | 12 | (RMB70.72 cents) | (RMB5.46 cents) |
| Diluted | 12 | N/A | N/A |

**Consolidated Balance Sheet**
*At 30 June 2006*

| | Note | 2006 RMB'000 | 2005 RMB'000 (restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 2,796 | 3,581 |
| Property under development | 14 | 72,285 | 66,263 |
| Available-for-sale securities/Investment in securities | 15 | – | 31,916 |
| Prepaid lease payment | 17 | 1,987 | 2,028 |
| **Total non-current assets** | | 77,068 | 103,788 |
| **Current assets** | | | |
| Inventories | 18 | 2,459 | 4,817 |
| Trade receivables | 19 | 1,679 | 30,387 |
| Bills receivable | 19 | – | 9,435 |
| Prepayments, deposits and other receivables | 21 | 5,939 | 17,999 |
| Held-to-maturity securities/Trust fund investments | 22 | – | 150,704 |
| Cash and bank balances | 23 | 96,765 | 14,487 |
| **Total current assets** | | 106,842 | 227,829 |
| **Current liabilities** | | | |
| Trade payables | 24 | 2,642 | 11,191 |
| Bills payable, secured | 24 | – | 18,851 |
| Provision, accruals and other payables | 25 | 34,423 | 6,728 |
| Receipts in advance | | 612 | 3,260 |
| Due to a director | 26 | 1,025 | – |
| Current portion of interest-bearing borrowings | 28 | 4,798 | 2,000 |
| Short-term bank loan | 29 | 97,912 | 100,000 |
| Taxation payable | | 8,534 | 8,764 |
| **Total current liabilities** | | 149,946 | 150,794 |
| **Net current (liabilities) assets** | | (43,104) | 77,035 |
| **Total assets less current liabilities** | | 33,964 | 180,823 |

**Consolidated Balance Sheet** *(Continued)*
*At 30 June 2006*

| | *Note* | **2006** *RMB'000* | **2005** *RMB'000* (restated) |
|---|---|---|---|
| **Capital and reserves** | | | |
| Ordinary share capital | 30 | 37,100 | 37,100 |
| Convertible redeemable preference shares | 30 | 104,000 | – |
| Reserves | 31 | (111,816) | 136,568 |
| **Total equity** | | 29,284 | 173,668 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 28 | 4,680 | 7,155 |
| | | 33,964 | 180,823 |

**Balance Sheet**
*At 30 June 2006*

| | Note | 2006 RMB'000 | 2005 RMB'000 (restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 16 | 66,362 | 67,638 |
| **Current assets** | | | |
| Due from subsidiaries | 20 | 38,575 | 21,289 |
| Prepayments, deposits and other receivables | 21 | 4,160 | – |
| Cash and bank balances | 23 | 67,684 | 8 |
| **Total current assets** | | 110,419 | 21,297 |
| **Current liabilities** | | | |
| Accruals and other payables | | 1,899 | 392 |
| Due to subsidiaries | 27 | 18,413 | 20,245 |
| Current portion of interest-bearing borrowings | 28 | 4,798 | 2,000 |
| **Total current liabilities** | | 25,110 | 22,637 |
| **Net current assets (liabilities)** | | 85,309 | (1,340) |
| **Total assets less current liabilities** | | 151,671 | 66,298 |
| **Capital and reserves** | | | |
| Ordinary share capital | 30 | 37,100 | 37,100 |
| Convertible redeemable preference shares | 30 | 104,000 | – |
| Reserves | 31 | 5,891 | 22,043 |
| **Total equity** | | 146,991 | 59,143 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 28 | 4,680 | 7,155 |
| | | 151,671 | 66,298 |

**Consolidated Statement of Changes in Equity**
*For the year ended 30 June 2006*

| | Note | Ordinary share capital *RMB'000* | Issued Convertible Shares *RMB'000* | Other reserves *RMB'000* | Accumulated profits (losses) *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| Balance as at 1 July 2004 | | 37,100 | – | 26,310 | 129,363 | 192,773 |
| Loss attributable to equity shareholders | 31 | – | – | – | (19,105) | (19,105) |
| **Balance as at 30 June 2005** | | 37,100 | – | 26,310 | 110,258 | 173,668 |
| Issue of convertible redeemable preference shares | 30 | – | 104,000 | – | – | 104,000 |
| Exchange difference arising from translation of financial statements of overseas operations | | – | – | (864) | – | (864) |
| Loss attributable to equity shareholders | 31 | – | – | – | (247,520) | (247,520) |
| **Balance as at 30 June 2006** | | 37,100 | 104,000 | 25,446 | (137,262) | 29,284 |

**Consolidated Cash Flow Statement**

*For the year ended 30 June 2006*

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Operating activities** | | |
| Loss before taxation | (247,514) | (16,007) |
| Adjustment for: | | |
| Amortisation of lease payment | 41 | – |
| Amortisation of software development costs | – | 6,600 |
| Bad debts | 309 | 557 |
| Bank interest income | (104) | (530) |
| Depreciation of property, plant and equipment | 1,126 | 1,365 |
| Impairment loss on available-for-sale securities/ investment in securities | 31,314 | 3,700 |
| Impairment loss on property, plant and equipment | 22 | – |
| Impairment loss on held-to-maturity securities | 150,704 | – |
| Impairment loss on software development costs | – | 2,600 |
| Interest expenses | 9,690 | 7,940 |
| Loss on disposal of property, plant and equipment | 309 | 378 |
| Provision for doubtful debts | 33,353 | 3,006 |
| Provision for corporate guarantee | 15,000 | – |
| Provision for obsolete and slow moving inventories | 595 | 1,210 |
| Unrealised gain on trust fund investments | – | (704) |
| **Operating (loss) profit before changes in working capital** | (5,155) | 10,115 |
| Decrease in inventories | 1,762 | 2,333 |
| Decrease in prepayments, deposits and other receivables | 11,710 | 100,172 |
| Decrease (increase) in bills receivable | 9,435 | (8,312) |
| (Increase) decrease in trade receivables | (4,606) | 52,956 |
| Decrease in trade payables | (8,548) | (36,165) |
| Decrease in bills payable | (18,851) | (29,411) |
| Decrease in provision, accruals and other payables | (2,388) | (142) |
| Increase in amount due to a director | 1,025 | – |
| Decrease in receipts in advance | (2,648) | (5,070) |
| **Cash (used in) from operations** | (18,264) | 86,476 |
| Tax paid | (70) | – |
| **Net cash (used in) from operating activities** | (18,334) | 86,476 |

**Consolidated Cash Flow Statement** *(Continued)*
*For the year ended 30 June 2006*

| | Note | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Bank interest received | | 104 | 530 |
| Decrease in pledged time deposits | | – | 6,872 |
| Increase in trust fund investment | | – | (150,000) |
| Payments for acquisition of property, plant and equipment | | (671) | (417) |
| Proceeds from disposal of property, plant and equipment | | – | 2 |
| **Net cash used in investing activities** | | (567) | (143,013) |
| **Cash flows from financing activities** | | | |
| Interest paid | | (132) | (7,751) |
| Issue of convertible redeemable preference shares | | 104,000 | – |
| New loans raised | | – | 100,000 |
| Repayment of loans | | (2,088) | (36,902) |
| **Net cash from financing activities** | | 101,780 | 55,347 |
| **Increase (decrease) in cash and cash equivalents** | | 82,879 | (1,190) |
| **Effect on foreign exchange rate changes** | | (601) | – |
| **Cash and cash equivalents at beginning of year** | | 14,487 | 15,677 |
| **Cash and cash equivalents at end of year** | | 96,765 | 14,487 |
| **Analysis of cash and cash equivalents** | | | |
| Cash and bank balances | 23 | 96,765 | 14,487 |

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 1. GENERAL INFORMATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16 to the financial statements.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB'000) unless otherwise stated.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs which are generally effective for accounting periods beginning on or after 1 January 2005. Details of major changes in accounting policies following the adoption of these HKFRS are summarised in note 3 to the financial statements.

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

The consolidated financial statements for the year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that available-for-sale securities is stated at fair value as explained in the accounting policies set out below.

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

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

**Notes to the Financial Statements**

*For the year ended 30 June 2006*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(b) Basis of preparation of the financial statements** *(Continued)*

At the balance sheet date, the Group's current liabilities exceeded its current assets by RMB43,104,000, as the Group has made significant provisions on its short term assets, including a provision of RMB150,704,000 on the trust fund investments. In addition, certain of its subsidiaries in the PRC are also involved in claims by PRC banks for guarantees which were allegedly given by these subsidiaries to third parties without formal approval of the Group management. The sustainability of the Group as a going concern is dependent on its ability to successfully obtain adequate medium to long term financing to fund its operations before sufficient cash flows are generated from profitable operations and to favourably resolve the claims. After evaluating all the relevant facts available to them, the Directors are of the opinion that the Group should be able to maintain itself as a going concern by raising adequate additional finance and by debt restructuring; details are set out below:

(a) Prior to the balance sheet date, the Company has successfully raised significant amount of cash by issuing convertible redeemable preference shares ("Preference Shares") for working capital purposes and has the option of requiring the subscriber to subscribe more Preference Shares if the need arises;

(b) The Directors are in the process of negotiation for a restructuring of the short term bank loan of RMB98 million with the Bank of China, Shenzhen Branch; and

(c) The Directors are liaising closely with lawyers in the PRC and the third parties concerned to actively address the claims raised by the PRC banks and will be actively defending questionable claims.

**(c) Critical accounting estimates and judgements**

*(i) Allowance for inventories*

The Group's management reviews an aging analysis of inventories at each balance sheet date, and make allowance for obsolete and slow-moving inventory items identified that are no longer recoverable or suitable for use in production. The management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowances for obsolete items.

*(ii) Allowance for bad and doubtful debts*

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of the accounts receivable and on management's judgement. At the balance sheet date, the accounts receivable, net of provision, amounted to RMB1,679,000 (2005: RMB30,387,000). A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

*(iii) Impairment of assets*

As there were impairment indicators, it triggered the requirement to estimate the recoverable amounts of property, plant and equipment, property under development, held-to-maturity securities and available-for-sale securities. In accordance with HKAS 36 Impairment of assets, the Company completed its impairment test by comparing their recoverable amounts to their carrying amounts as at balance sheet date.

**Notes to the Financial Statements**
*For the year ended 30 June 2006*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(CONTINUED)*

**(d) Subsidiaries**

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**(e) Financial instruments**

Financial assets and financial liabilities are recognised on the trade date basis, and when the Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are measured as follows:

*(i) Held-to-maturity securities*

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities. They are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Any gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process.

*(ii) Available-for-sale securities*

Available-for-sale securities are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. When these investments are derecognised, the cumulative gain or loss previously recognised in equity is included in the income statement. Available-for-sale securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any accumulated impairment losses.

*(iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method except where receivables are interest-free and without any fixed repayment term or the effect of discounting would be immaterial, in such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Any gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*(iv) Trade receivables and payables*

Trade receivable and payables are recognised at cost which approximates to their fair value, less provision for impairment.

**Notes to the Financial Statements**
*For the year ended 30 June 2006*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(e) Financial instruments** *(Continued)*

*(v) Interest-bearing borrowings*

All loans and borrowings are initially recognised at the fair value of the consideration received net of associated costs. After initial recognition, loans and borrowings are measured at amortised cost using the effective interest method.

At each balance sheet date, the Group assesses whether there is any objective evidence of the occurrence of a loss event that has an impact on the Group's estimated future cash flow of the financial asset or group of financial assets that can be reliably measured. A provision of impairment is recognised as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to a third party. The Group derecognises financial liability when, and only when the liability is extinguished.

**(f) Equity instruments**

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

**(g) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, 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 charged to the income statement during the year in which they are incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives from the date on which they are available for use as follows:

| | |
|---|---|
| Leasehold improvements | 20% or over the lease term, if shorter |
| Equipment | 18% to 20% |
| Furniture | 18% |
| Motor vehicles | 18% |

Gains or losses arising from the retirement or disposal of an item or property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

**(h) Property under development**

Property in the course of construction or development for future use as investment property is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to the property. At the time of completion, it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in income statement.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(i) Operating lease charges**

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

**(j) Impairment losses**

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amount of its property, plant and equipment, investment in subsidiaries, property under development, prepaid lease payment, held-to-maturity securities and available-for-sale securities have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generate cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a 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. Impairment losses are recognised as expenses immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

**(k) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and includes costs of materials and, in the case of work-in-progress and finished goods, also includes direct labour. Net realisable value is based on estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

The amount of any write-down in inventories to net realisable value and all losses on inventories are recognised as an expenses in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(l) Cash and cash equivalents**

For the purpose of the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of overdraft, if any.

**(m) Employee benefits**

*Defined contribution retirement plan*

Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a state-sponsored retirement plan organised by municipal government as stipulated by the regulations of the People's Republic of China (the "PRC") are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(n) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

**(o) Provision and contingent liabilities**

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

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

**(p) Turnover and revenue recognition**

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

The Group enters into contracts with customers on the sales of automation products and provision of project and technical services. Revenue is recognised in accordance with the accounting policies described in (i) and (ii) below.

*(i) Sales of automation products*

Revenue from sales of automation products is recognised when the work is completed and the customer has accepted the goods together with the risks and rewards of ownership.

**Notes to the Financial Statements**

*For the year ended 30 June 2006*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(p) Turnover and revenue recognition** *(Continued)*

*(ii) Provision of project and technical services*

Revenue from the provision of project and technical services is recognised by reference to the stage of completion of the system integration work at the balance sheet date. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed. In instances where the stage of completion is not identifiable, revenue from the provision of system integration services is recognised on a straight-line basis over the period in which the system integration work is performed.

Interest income is recognised as the interest accrues (using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected useful life of the financial instruments) to the net carrying amount of the financial asset.

**(q) Segment reporting**

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intercompany balances and intercompany transactions are eliminated as part of the consolidation process, except to the extent that such intercompany balances and transactions are between Group entities within a single segment.

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

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

**(r) Related parties**

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

**(s) Translation of foreign currencies**

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 ("functional currency"). The consolidated financial statements are presented in the currency of Renminbi, which is the Company's presentation currency and also functional currency.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(s) Translation of foreign currencies** *(Continued)*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the assets and liabilities of the Group's entities, which have a functional currency different from Renminbi are translated to presentation currency at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average rates of exchange for the year. Exchange differences arising are recognised as a separate component of equity.

**(t) Future changes in HKFRS**

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/revised HKFRS that are not yet effective and the Group has not early adopted. Except for the following amendments, which will be effective from the next financial year, the directors anticipate that the adoption of these new/revised HKFRS in the future accounting periods will have no significant impact on the result of the Group.

*HKAS39 and HKFRS 4 (Amendments): Financial guarantee contracts*

A financial guarantee contract is a contract that requires the Group to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are accounted for as financial instruments under HKFRS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 *Provisions, contingent liabilities and contingent assets* and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

The Group is not yet in a position to reasonably estimate the impact on the adoption of the above amendments in the period of initial application to the Group's and the Company's financial position.

**3. CHANGE IN ACCOUNTING POLICIES**

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new and revised HKFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

**(a) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)**

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition of financial instruments and disclosure of financial statements. Prior to 1 July 2005, the Group classified investments into investment in securities and trust fund investments. Investment in securities were stated at cost less provision for impairment losses that was expected to be other than temporary. Trust fund investments were stated at their fair value and changes in fair value were recognised in income statement as they arose.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**3. CHANGE IN ACCOUNTING POLICIES** *(Continued)*

**(a) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)** *(Continued)*

Upon the adoption of HKAS 32 and HKAS 39, the Group and the Company's investment in securities and trust fund investments were re-designated as available-for-sale securities and held-to-maturity securities respectively. They have been re-measured in accordance with HKAS 39 as appropriate. The adoption of HKAS 32 and HKAS 39 had no significant impact on the results and financial positions of the current and prior accounting periods. No prior period adjustments were required.

**(b) Lease (HKAS 17, Lease)**

In prior years, leasehold land held for development was stated at cost less any identified impairment loss. With the adoption of HKAS 17 as from 1 July 2005, the Group adopted a new policy for such land. Under the new policy, the leasehold interest in the land is accounted for as being held under an operating lease and classified as prepaid lease payment. The cost of acquiring such land is amortised on a straight-line basis over the period of the lease term.

**(c) Definition of related parties (HKAS 24, related party disclosure)**

As a result of the adoption of HKAS 24, *Related party disclosures*, the definition of related parties as disclosed in note 2(r) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, *Related party disclosures*, still been in effect.

**4. TURNOVER AND OTHER REVENUE**

Turnover and other revenue consist of:

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Income from | | |
| – Sales of automation products | 111,538 | 185,670 |
| – Fees for project and technical services | 4,043 | 2,295 |
| Total turnover | 115,581 | 187,965 |
| Other revenue | | |
| – Bank interest income | 104 | 530 |
| – Unrealised gain on trust fund investments | – | 704 |
| | 104 | 1,234 |
| Total revenue | 115,685 | 189,199 |

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 5. SEGMENT REPORTING

For management purposes, the Group is currently organised into two business operations. These divisions are the basis on which the Group reports its primary segment information. Principal activities as follows:

– Automation products
– Project and technical services

**Business segments**

| | Automation products *RMB'000* | Project and technical services *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|
| For the year ended 30 June 2006 | | | |
| Turnover | 111,538 | 4,043 | 115,581 |
| Segment results | (35,411) | 3,850 | (31,561) |
| Unallocated operating income and expenses | | | (8,922) |
| Unallocated corporate expenses | | | (197,341) |
| Finance costs | | | (9,690) |
| Loss from operations | | | (247,514) |
| Income tax | | | (6) |
| Loss attributable to equity shareholders | | | (247,520) |

**Other information**

| | Automation products *RMB'000* | Project and technical services *RMB'000* | Unallocated *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| Capital expenditure | 38 | – | 633 | 671 |
| Depreciation and amortisation | 1,126 | – | – | 1,126 |
| Impairment loss | – | – | 182,040 | 182,040 |

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**5. SEGMENT REPORTING** *(Continued)*

**Business segments** *(Continued)*

| | Automation products *RMB'000* | Project and technical services *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|
| For the year ended 30 June 2005 | | | |
| Turnover | 185,670 | 2,295 | 187,965 |
| Segment results | 16,166 | (12,413) | 3,753 |
| Unallocated operating income and expenses | | | (7,744) |
| Unallocated corporate expenses | | | (4,076) |
| Finance costs | | | (7,940) |
| Loss from operations | | | (16,007) |
| Income tax | | | (3,098) |
| Loss attributable to equity shareholders | | | (19,105) |

**Other information**

| | Automation products *RMB'000* | Project and technical services *RMB'000* | Unallocated *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| Capital expenditure | 417 | – | – | 417 |
| Depreciation and amortisation | 1,365 | – | – | 1,365 |
| Amortisation of software development costs | – | 6,600 | – | 6,600 |
| Impairment loss | – | – | 3,700 | 3,700 |

**Geographical segments**

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

| | 2006 *RMB'000* | 2005 *RMB'000* |
|---|---|---|
| Revenue from external customers | | |
| PRC (including Hong Kong) | 88,428 | 186,393 |
| Malaysia | 27,153 | 1,572 |
| | 115,581 | 187,965 |

All segment assets and capital expenditures are in the PRC (including Hong Kong).

**Notes to the Financial Statements**
*For the year ended 30 June 2006*

### 6. LOSS FROM OPERATIONS

Loss from operations is stated after charging the following:

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Staff costs (including director's emoluments): | | |
| Salaries, wages and other benefits | 6,673 | 8,093 |
| Contributions to defined contribution plans | 325 | 396 |
| | 6,998 | 8,489 |
| Included in research and development expenditures | (757) | (1,037) |
| | 6,241 | 7,452 |
| Auditors' remuneration | 551 | 320 |
| Bad debts | 309 | 557 |
| Cost of inventories | 107,172 | 158,931 |
| Depreciation of property, plant and equipment | 1,126 | 1,365 |
| Impairment loss on available-for-sale securities/investment in securities | 31,314 | 3,700 |
| Impairment loss on held-to-maturity securities | 150,704 | – |
| Impairment loss on property, plant and equipment | 22 | – |
| Impairment loss on software development costs | – | 2,600 |
| Loss on disposal of property, plant and equipment | 309 | 378 |
| Operating lease rentals of premises | 877 | 1,054 |
| Provision for corporate guarantee | 15,000 | – |
| Provision for doubtful debts | 33,353 | 3,006 |
| Provision for obsolete and slow moving inventories | 595 | 1,210 |
| Research and development expenditures | 1,564 | 1,794 |

### 7. FINANCE COSTS

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest on bank and other borrowings and overdraft wholly repayable within 5 years | 9,690 | 7,532 |
| Interest on bank and other borrowings wholly repayable after 5 years | – | 408 |
| | 9,690 | 7,940 |

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

| | Directors' fees | Salaries, allowances and benefits in kind | Retirement scheme contributions | 2006 Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Executive directors** | | | | |
| Dr. Sze Kwan | 138 | 114 | 3 | 255 |
| Mr. Siek Fui | – | 184 | 4 | 188 |
| Ms. Chan Siu Chu, Debby | 5 | 225 | 5 | 235 |
| Mr. Liu Ping | – | 83 | 6 | 89 |
| Mr. Xiong Jian Rui | – | 86 | 3 | 89 |
| Mr. Tung Fai | – | 362 | 4 | 366 |
| Mr. Feng Jin | – | 56 | 2 | 58 |
| **Non-executive directors** | | | | |
| Mr. Lin Gongshi | 125 | – | – | 125 |
| Mr. Gerard J. McMahon | 52 | – | – | 52 |
| **Independent non-executive directors** | | | | |
| Mr. Wee Soon Chiang, Henny | 125 | – | – | 125 |
| Mr. Wong Kam Kau, Eddie | 125 | – | – | 125 |
| Mr. Hui Hung, Stephen | 125 | – | – | 125 |
| | 695 | 1,110 | 27 | 1,832 |

| | Directors' fees | Salaries, allowances and benefits in kind | Retirement scheme contributions | 2005 Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Executive directors** | | | | |
| Mr. Xiong Jian Rui | – | 149 | 6 | 155 |
| Mr. Tung Fai | – | 551 | 13 | 564 |
| **Independent non-executive directors** | | | | |
| Mr. Wee Soon Chiang, Henny | 127 | – | – | 127 |
| Mr. Wong Kam Kau, Eddie | 127 | – | – | 127 |
| Mr. Hui Hung, Stephen | 96 | – | – | 96 |
| | 350 | 700 | 19 | 1,069 |

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, two (2005: one) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2005: four) individuals are as follows:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries and other emoluments | 1,014 | 1,757 |
| Retirement scheme contributions | 30 | 54 |
| | 1,044 | 1,811 |

The emoluments of all (2005: all) of the five highest paid individuals (including directors and other employees) for the year ended 30 June 2006 fall within the band of nil to HK$1,000,000, equivalent to RMB1,040,000 (2005: RMB1,060,000).

### 10. INCOME TAX

#### (a) Taxation charge in the consolidated income statement

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Current taxation | | |
| – Hong Kong Profits tax | – | 3,098 |
| Under-provision in prior year | | |
| – Hong Kong Profits tax | 6 | – |
| Taxation charge | 6 | 3,098 |

*(i) Overseas income tax*

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2020. The Company's subsidiaries established in the British Virgin Islands are incorporated under the international Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income taxes.

*(ii) Hong Kong Profits tax*

No Hong Kong Profits tax has been provided in the financial statements as the Company and its subsidiaries operating in Hong Kong did not derive any assessable profits for the year (2005: provided at the rate of 17.5% on the estimated assessable profits).

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**10. INCOME TAX** *(Continued)*

**(a) Taxation charge in the consolidated income statement** *(Continued)*

*(iii) PRC enterprise income tax*

Taxation arising in the PRC is calculated at the rates prevailing in the PRC.

The wholly owned subsidiaries of the Company, Techwayson Industrial Limited and Techwayson Technology (Shenzhen) Limited, are High-Tech enterprise which were established and are operating in a special economic zone of the PRC, and are normally subject to the PRC enterprise income tax at a rate of 15%. However, they are exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction in the tax rate for the next six years.

The tax exemption period of Techwayson Industrial Limited expired on 31 December 2000 and thereafter, it is subject to the PRC enterprise income tax at 7.5% for years until 31 December 2003 and another three years until 31 December 2006 provided it continues to qualify as a High-Tech enterprise. This year is the first year of profitable operations of Techwayson Technology (Shenzhen) Limited. No PRC enterprise income tax has been provided in the financial statements.

**(b) Reconciliation between tax expenses and accounting profit at applicable tax rates**

| | **2006** *RMB'000* | **2005** *RMB'000* |
|---|---|---|
| Loss before taxation | (247,514) | (16,007) |
| Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned | (38,908) | (2,801) |
| Tax effect of non-deductible expenses | 31,371 | 901 |
| Tax effect of non-taxable income | (12) | (19) |
| Tax effect of unused tax losses not recognised | 7,518 | 1,223 |
| Tax effect of deductible temporary difference not recognised | 31 | – |
| Others | – | 3,794 |
| Under-provision in prior year | 6 | – |
| Taxation charge | 6 | 3,098 |

**11. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY**

The loss attributable to equity shareholders is dealt with in the financial statements of the Company to the extent of RMB15,036,000 (2005: RMB36,519,000).

**12. LOSS PER SHARE**

The calculation of loss per share for the year ended 30 June 2006 is based on the consolidated loss attributable to shareholders of RMB247,520,000 (2005: RMB19,105,000) and the weight average number of 350,000,000 shares (2005: 350,000,000 shares) in issue during the year.

No diluted loss per share is presented as there were no dilutive potential ordinary shares in issue during the year ended 30 June 2006 and 2005.

**Notes to the Financial Statements**
*For the year ended 30 June 2006*

**13. PROPERTY, PLANT AND EQUIPMENT**

| | The Group | | | | |
|---|---|---|---|---|---|
| | Leasehold improvements *RMB'000* | Equipment *RMB'000* | Furniture *RMB'000* | Motor vehicles *RMB'000* | Total *RMB'000* |
| **Cost** | | | | | |
| At 1 July 2004 | 1,232 | 6,024 | 598 | 1,481 | 9,335 |
| Additions | – | 224 | 193 | – | 417 |
| Reclassification | – | 83 | (83) | – | – |
| Disposals/Write-off | (367) | (75) | (183) | – | (625) |
| At 30 June 2005 | 865 | 6,256 | 525 | 1,481 | 9,127 |
| Additions | 215 | 211 | 245 | – | 671 |
| Disposals/Write-off | (852) | (1,962) | (205) | – | (3,019) |
| Exchange difference | – | (4) | – | (8) | (12) |
| At 30 June 2006 | 228 | 4,501 | 565 | 1,473 | 6,767 |
| **Accumulated depreciation and Impairment losses** | | | | | |
| At 1 July 2004 | 277 | 3,207 | 193 | 749 | 4,426 |
| Provision for the year | 193 | 868 | 48 | 256 | 1,365 |
| Reclassification | – | 4 | (4) | – | – |
| Disposals/Write-off | (123) | (46) | (76) | – | (245) |
| At 30 June 2005 | 347 | 4,033 | 161 | 1,005 | 5,546 |
| Provision for the year | 170 | 690 | 95 | 171 | 1,126 |
| Disposals/Write-off | (504) | (2,145) | (61) | – | (2,710) |
| Impairment loss | – | – | 22 | – | 22 |
| Exchange difference | – | (2) | – | (11) | (13) |
| At 30 June 2006 | 13 | 2,576 | 217 | 1,165 | 3,971 |
| **Net book value** | | | | | |
| At 30 June 2006 | 215 | 1,925 | 348 | 308 | 2,796 |
| At 30 June 2005 | 518 | 2,223 | 364 | 476 | 3,581 |

**Notes to the Financial Statements**

*For the year ended 30 June 2006*

**14. PROPERTY UNDER DEVELOPMENT**

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Construction and development cost | | |
| At beginning of year | 66,263 | 66,263 |
| Additions | 6,022 | – |
| At end of year | 72,285 | 66,263 |

Property under development represents property that is being constructed for future use as investment property. It is located in the Hi Tech Park in Shenzhen, the PRC and is expected to be completed in end of 2006. In assessing whether there is an impairment on the carrying value of the property under development, the Group has adopted a capitalisation of future rental valuation method and has obtained a valuation report prepared by an independent valuer in October 2006, which indicated the total rental value of the property in the remaining land use right term would be approximately RMB144,000,000.

The Group has obtained the land use right (see note 17) for the leasehold land with a lease period of 50 years commenced in January 2003. The property was charged by the plaintiffs of the writs of summons which were served to the two PRC subsidiaries of the Company through Tongling Intermediate People's Court and Shenzhen Intermediate People's Court in respect of the alleged guarantees given by the Group relating the indebtedness of Goldwiz Huarui (Tongling) Electronic Material Company Limited ("Goldwiz Tongling"), a company incorporated in the PRC.. The Group is having out-of court settlement with the plaintiffs in some of the litigation cases and should settlement on the loans be reached, the property will be discharged. On the other hand, the Group is having final stage of negotiation with its bank creditors for restructuring the short term loan to long term loan and should debt restructuring be finalised, the property will be pledged with the bank creditor as security for the long term loan. Details are set out in notes 29.

**15. AVAILABLE-FOR-SALE SECURITIES/INVESTMENT IN SECURITIES**

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Unlisted equity securities, at cost | | |
| At beginning of year | 51,940 | 51,940 |
| Effect on change in exchange rate | (602) | – |
| At end of year | 51,338 | 51,940 |
| Impairment losses | | |
| At beginning of year | (20,024) | (16,324) |
| Impairment loss for the year | (31,314) | (3,700) |
| At end of year | (51,338) | (20,024) |
| Carrying value at end of year | – | 31,916 |

Available-for-sale securities (previously classified as investment in securities) represented the Group's 18.52% unlisted equity interest in the registered capital of Goldwiz Tongling.

As a minority shareholder, the Company has no control over the operation of Goldwiz Tongling. As disclosed by the major shareholder of Godwiz Tongling, the operation of the factory of Goldwiz Tongling has been suspended since December 2005 due to a critical liquidity problem. Goldwiz Tongling has also received writs of summons from various parties including suppliers, bankers, former shareholders and a PRC trust company in respect of alleged indebtedness of approximately RMB221,000,000. All the fixed assets have been pledged to or charged by the bankers.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 15. AVAILABLE-FOR-SALE SECURITIES/INVESTMENT IN SECURITIES *(Continued)*

Having considered the latest available information relating to existing financial position of Goldwiz Tongling and the various pending litigations, the Group has decided to make a full provision in respect of the carrying amount of its investment in Goldwiz Tongling.

### 16. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Unlisted shares, at cost | 66,362 | 67,638 |

Details of the principal subsidiaries as at 30 June 2006 are as follows:

| Name of company | Place of incorporation/ operation | Particulars of issued and paid up capital | Percentage of equity interest attributable to the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Usualink Development Limited | British Virgin Islands | 1,250 shares of US$1 each | 100% | – | Investment holding |
| 德維森實業(深圳)有限公司 (Techwayson Industrial Limited*#) | PRC | 10,000,000 shares of RMB1 each | – | 100% | Design, supply and integration of automation and control systems |
| Techwayson Management Limited | Hong Kong | 10,000 shares of HK$1 each | 100% | – | Provision of management services |
| Techwire Enterprises Limited | British Virgin Islands | 100 shares of US$1 each | 100% | – | Investment holding |
| Techwayson Automation Limited | Hong Kong | 10,000 shares of HK$1 each | 100% | – | Trading of automation products |
| Realtop Limited | British Virgin Islands | 100 shares of US$1 each | 100% | – | Investment holding |
| 德維森科技(深圳)有限公司 Techwayson Technology (Shenzhen) Limited# (formerly known as Hiwayson Technology Limited)* | PRC | 100,000,000 shares of RMB1 each | – | 100% | Design, supply and integration of automation and control systems |
| Smart Gain Asia Limited | Hong Kong | 1 share of HK$1 each | 100% | – | Inactive during the year and pending for trading of natural resources and other mineral products |

# *English company names for identification purpose only.*

* *Techwayson Industrial Limited and Techwayson Technology (Shenzhen) Limited are wholly foreign owned enterprises established in a special economic zone of the PRC to be operated for 15 years up to September 2012 and 20 years up to June 2023 respectively.*

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 17. PREPAID LEASE PAYMENT

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Land use right | | |
| Carrying value at beginning of year | 2,028 | 2,028 |
| Amortisation for year | (41) | – |
| | 1,987 | 2,028 |

Prepaid lease payment represents a land use right acquired for the construction or development of a property being under development which is located in the PRC and will be classified as investment property upon completion (see note 14).

### 18. INVENTORIES

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Raw materials | – | 327 |
| Work in progress | – | 673 |
| Merchandises | 2,459 | 3,817 |
| | 2,459 | 4,817 |

All inventories, excluding those fully provided (see note 6) for with nil carrying value, are stated at cost.

### 19. TRADE RECEIVABLES AND BILLS RECEIVABLE

Trade receivables and bills receivable consisted of:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Trade receivables | 23,841 | 33,393 |
| Less: Provision for doubtful debts | (22,162) | (3,006) |
| | 1,679 | 30,387 |
| Bills receivable | – | 9,435 |

Customers are normally required to settle the debts within one month upon issue of invoices, except for certain well established customers where the terms are extended to two to three months.

In the review of the recoverability of trade receivables at each balance sheet date, the management made their judgement based on the age of the amount due, the extent of settlements received subsequent to the balance sheet date and the accessibility of the trade receivables. For the year ended 30 June 2006, the management recognised a full provision in respect of trade debts of RMB22,162,000 for which the relevant customers were not accessible.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 19. TRADE RECEIVABLES AND BILLS RECEIVABLE *(Continued)*

Ageing analysis of trade receivables and bills receivable at the year end date is as follows:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Trade receivables | | |
| 0 – 60 days | 909 | 13,777 |
| 61 – 90 days | 97 | 3,337 |
| 91 – 365 days | 141 | 12,911 |
| Over 365 days | 532 | 362 |
| | 1,679 | 30,387 |
| Bills receivable | | |
| 0 – 60 days | – | 9,435 |

### 20. DUE FROM SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Due from subsidiaries | 48,912 | 21,289 |
| Provision for doubtful debts | (10,337) | – |
| | 38,575 | 21,289 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed term of repayment. The carrying amount of the amounts due approximates their fair values.

### 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Purchase deposits | 183 | 16,286 | – | – |
| Prepayments | 481 | 1,428 | – | – |
| Utilities and rental deposits | 1,005 | 56 | – | – |
| Other receivables | 4,270 | 229 | 4,160 | – |
| | 5,939 | 17,999 | 4,160 | – |

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 22. HELD-TO-MATURITY SECURITIES/TRUST FUND INVESTMENTS

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Trust fund investments | | |
| At beginning of year | 150,704 | – |
| Additions | – | 150,704 |
| Impairment loss | (150,704) | – |
| At end of year | – | 150,704 |

Trust fund investments represents funds placed by two PRC subsidiaries with Kinghing Trust & Investment Co., Ltd. (the "Trust Company"), an independent trust investment company in the PRC. Pursuant to the relevant contracts, the funds were for a fixed term up to May 2006 and the Group's return on the trust funds is limited to an annual rate of return of 4%.

In early 2006, the Company was informed that the Trust Company has been ordered by the relevant authority to suspend its operation. The assets of the Trust Company are now being managed by the China Construction Bank. The two PRC subsidiaries have registered with the China Construction Bank its entitlement to the fund. Despite the Group's repeated attempts for confirmation of the repayment schedule, neither the China Construction Bank nor the local government has provided any information. In view of the absence of information to substantiate the recoverability of the trust fund, as at 30 June 2006, the Directors consider that it is prudent to recognise an impairment loss of RMB150,704,000 on trust fund investments.

### 23. CASH AND BANK BALANCES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash at bank and in hand | 8,365 | 14,487 | 84 | 8 |
| Time deposits | 88,400 | – | 67,600 | – |
| As stated in the cash flow statement | 96,765 | 14,487 | 67,684 | 8 |

### 24. TRADE PAYABLES AND BILLS PAYABLE

Ageing analysis of trade payables and bills payable at the year end date is as follows:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Trade payables | | |
| 0 – 60 days | 864 | 2,234 |
| 61 – 90 days | – | 1,073 |
| 91 – 365 days | 25 | 5,987 |
| Over 365 days | 1,753 | 1,897 |
| | 2,642 | 11,191 |
| Bills payable | | |
| 0 – 60 days | – | 18,851 |

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 25. PROVISION, ACCRUALS AND OTHER PAYABLES

Included in provision, accruals and other payables is an amount of RMB15,000,000 set aside in respect of alleged guarantee which are said to be issued by two PRC subsidiaries of the Company (see note 37).

### 26. DUE TO A DIRECTOR

The amount due to a director is unsecured, non-interest bearing and repayment on demand.

### 27. DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest-free and have no fixed term of repayment. The carrying amount of the amounts due approximates their fair values.

### 28. INTEREST-BEARING BORROWINGS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (restated) | | (restated) |
| Other loans, unsecured | 9,478 | 9,155 | 9,478 | 9,155 |

The above loans were wholly repayable within five years and the maturity is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (restated) | | (restated) |
| On demand or within one year | 4,798 | 2,000 | 4,798 | 2,000 |
| More than one year, but not exceeding two years | 2,340 | 2,385 | 2,340 | 2,385 |
| More than two years, but not exceeding five years | 2,340 | 4,770 | 2,340 | 4,770 |
| | 9,478 | 9,155 | 9,478 | 9,155 |
| Less: Amounts due within one year shown under current liabilities | (4,798) | (2,000) | (4,798) | (2,000) |
| Non-current portion shown under non-current liabilities | 4,680 | 7,155 | 4,680 | 7,155 |

The loans bear interest at LIBOR plus 0.5% per annum and are repayable in 16 equal instalments over a period of 8 years from September 2001.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 29. SHORT TERM BANK LOAN

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | *RMB'000* | *RMB'000* |
| Bank loan, unsecured | 97,912 | 100,000 |

The loan was borrowed from the Bank of China Shenzhen Branch ("Bank Creditor") which bears interest at 6.372% and is overdue. The interest rate has been increased to 9.558% as a penalty imposed by the Bank Creditor.

On 2 August 2006, a notice of arbitration proceeding was served on the Company in respect of the bank indebtedness of RMB100 million owed by Techwayson Industrial Limited, a wholly owned subsidiary of the Company, to the Bank Creditor. The indebtedness was overdue in September 2005.

On 26 September 2006, Techwayson Industrial attended the hearing on the Arbitration and preliminarily agreed with the Bank Creditor to make an out-of-court settlement. The Bank Creditor will proceed with internal approval procedures for restructuring the short term loan to a long term loan subject to the pledge of the property under development in favour of the Bank Creditor as security for the long term loan.

### 30. SHARE CAPITAL

**(a) Ordinary share capital**

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **No. of shares** | | **No. of shares** | |
| | *'000* | *RMB'000* | *'000* | *RMB'000* |
| **Authorised:** | | | | |
| Ordinary shares of RMB0.106 (equivalent to HK$0.1) each | 1,000,000 | 106,000 | 1,000,000 | 106,000 |
| **Ordinary shares, issued and fully paid:** | | | | |
| At 30 June 2006 and 1 July 2005 | 350,000 | 37,100 | 350,000 | 37,100 |

**(b) Convertible redeemable preference shares**

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **No. of shares** | | **No. of shares** | |
| | *'000* | *RMB'000* | *'000* | *RMB'000* |
| **Convertible redeemable preference shares, issued and fully paid:** | | | | |
| At 1 July | – | – | – | – |
| Shares issued | 250,000 | 104,000 | – | – |
| At 30 June | 250,000 | 104,000 | – | – |

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**30. SHARE CAPITAL** *(Continued)*

**(b) Convertible redeemable preference shares** *(Continued)*

At 28 June 2006, the Company issued 250,000,000 convertible redeemable preference shares for par value of HK$0.10 at a subscription price of HK$0.40 each. The major terms of the relevant subscription and option agreement (the "Agreement") are set out below:

(i) The Company has the right, exercisable immediately following the end of the conversion period (prior to any extension thereof) and up to the third anniversary of the date of the initial issue of the 250,000,000 Convertible Redeemable Preference Shares, to require the mandatory conversion of all or part of the outstanding Convertible Redeemable Preference Share into new Ordinary Shares, or to require the redemption of all or part of the outstanding Convertible Redeemable Preference Shares into new Ordinary Shares, at amount equal to all amounts paid up or credited as paid up on the Convertible Redeemable Preference Shares.

(ii) The Company may require the subscriber to the convertible redeemable preference shares to further subscribe for an additional 100,000,000 convertible redeemable preference shares at HK$0.40 each. These convertible redeemable preference shares are convertible into new ordinary shares of the Company during the conversion period at the conversion price of HK$0.40.

(iii) The convertible redeemable preference shares are not transferable and do not carry the right to vote. Each convertible redeemable preference share is entitled to be paid a fixed cumulative preferential dividend in priority to any payment to the holders of any other class of shares at the rate of 3.5% per annum on the amount paid up or credited as paid up.

Based on their terms and conditions, the convertible redeemable preference shares have been presented as equity instrument in the balance sheet.

**31. RESERVES**

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **Share premium** | **General reserve funds** *(Note (a))* | **Capital reserve** *(Note (b))* | **Exchange difference** | **Retained profits (Accumulated losses)** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 July 2004 | 7,160 | 5,309 | 13,841 | – | 129,363 | 155,673 |
| Loss attributable to equity shareholders | – | – | – | – | (19,105) | (19,105) |
| At 30 June 2005 | 7,160 | 5,309 | 13,841 | – | 110,258 | 136,568 |
| Loss attributable to equity shareholders | – | – | – | – | (247,520) | (247,520) |
| Exchange difference | – | – | – | (864) | – | (864) |
| At 30 June 2006 | 7,160 | 5,309 | 13,841 | (864) | (137,262) | (111,816) |

*Notes:*

(a) As stipulated by regulations in the PRC, two PRC subsidiaries are required to appropriate 10% of after-tax profit (after offsetting prior year losses) to a general reserve fund until the balance of the fund reaches 50% of its share capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior year losses, or for the issuance of bonus shares on the condition that the general reserve fund shall be maintained at a minimum of 25% of the share capital after such issuance.

The balance of the general reserve fund has reached 50% of the share capital of Techwayson Industrial Limited and the board of directors has determined that no further appropriation is necessary unless there is an increase in share capital of the Company.

(b) Capital reserve represents effect of the reorganisation and capitalisation of shareholders' loans by a subsidiary.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**31. RESERVES** *(Continued)*

| | The Company | | | | |
|---|---|---|---|---|---|
| | **Share premium** *(Note (i))* *RMB'000* | **Contributed surplus** *(Note (i))* *RMB'000* | **Exchange difference** *RMB'000* | **Accumulated losses** *RMB'000* | **Total** *RMB'000* |
| At 1 July 2004 | 7,160 | 67,614 | – | (16,212) | 58,562 |
| Loss attributable to equity shareholders | – | – | – | (36,519) | (36,519) |
| At 30 June 2005 | 7,160 | 67,614 | – | (52,731) | 22,043 |
| Loss attributable to equity shareholders | – | – | – | (15,036) | (15,036) |
| Exchange difference | – | – | (1,116) | – | (1,116) |
| **At 30 June 2006** | 7,160 | 67,614 | (1,116) | (67,767) | 5,891 |

*Note:*

(i) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reconstruction on 16 January 2001.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 30 June 2006, the Company's reserves available for distribution to shareholders amounted to RMB5,891,000 (2005: RMB22,043,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB7,160,000 (2005: RMB7,160,000) and contributed surplus of RMB67,614,000 (2005: RMB67,614,000), less accumulated deficit of RMB67,767,000 (2005: RMB52,731,000) and exchange loss of RMB1,116,000 (2005: nil), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

**32. DEFERRED TAXATION**

No deferred taxation has been provided in the financial statements as there are no material taxable temporary difference (2005: nil). There are no significant deferred tax liabilities of the Group for which provision has not been made.

No deferred tax assets are recognised as the realisation of the related tax benefit through future taxable profits cannot be ascertained. As at 30 June 2006, the Group has unused tax losses of RMB57,047,000 (2005: RMB12,604,000) to carry forward against future taxable income.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

### 33. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for its Hong Kong employees. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, each of the Group ("the employer") and its employees makes monthly contributions to the scheme at 5% of the employee's earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month.

As stipulated by rules and regulations in the PRC, the two PRC subsidiaries are required to contribute to a state-sponsored retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 30 June 2006, the aggregate employer's contributions made by the Group amounted to RMB325,000 (2005: RMB396,000).

### 34. EMPLOYEE SHARE OPTIONS

The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's board of directors and will not be less than the highest of (i) the nominal value of the Company's shares, (ii) the average of the closing price of the shares quoted on the Main Board of The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the grant date and (iii) the closing price of the shares on the grant date. No option has been granted since the adoption of the share option scheme.

### 35. COMMITMENTS

#### (a) Capital commitments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Authorised and contracted for the capital expenditure in respect of the property under development | 31,592 | 59,500 | – | – |

#### (b) Operating lease commitments

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases which are payables as follows:

| | For premises | | For equipment | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 2,087 | 353 | 17 | – |
| Between two and five years | 1,268 | – | 72 | – |
| | 3,355 | 353 | 89 | – |

**Notes to the Financial Statements**

*For the year ended 30 June 2006*

**36. FINANCIAL INSTRUMENTS**

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

**(a) Credit risk**

The Group's credit risk is primarily attributable to trade receivables, bills receivable and held-to-maturity securities. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

At the balance sheet date, the Group has a certain concentration of credit risk, as 38% (2005: 43%) and 76% (2005: 76%) of the total trade receivables were due from the Group's largest customer and the five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including held-to-maturity securities, in the balance sheet. Except for the guarantee given by the Company in respect of a loan to a subsidiary of the Company and guarantee allegedly being given by two PRC subsidiaries of the Company as disclosed in note 37, the Group does not provide any other guarantees which would expose the Group to credit risk.

**(b) Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

**(c) Interest rate risk**

The Group has exposed to both fair value interest rate risk and cash flows interest rate risk through the impact of the rate changes on fixed interest rate bank borrowings and floating interest rate borrowings respectively. The Group currently does not have an interest rate hedging policy.

**(d) Foreign currency risk**

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars and United States dollars. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign currency risk is considered to be minimal.

**37. CONTINGENT LIABILITIES**

As at 30 June 2006, the Company has executed corporate guarantees to a bank to secure banking facilities granted to its subsidiaries and the banking facilities utilised by subsidiaries totaled approximately RMB98 million (2005: RMB145 million).

In addition, as mentioned in the Business Review, at 30 June 2006, two PRC subsidiaries of the Company had been served with writs of summons and are being claimed for a total amount of approximately RMB155 million under certain guarantees being allegedly issued by these two PRC subsidiaries. The guarantees were allegedly provided by the two PRC subsidiaries without the knowledge of the then and current Boards. Among the alleged guarantees, a total amount of approximately RMB94 million was said to be related to the loans borrowed by Goldwiz Tongling whilst approximately RMB60.7 million was related to the alleged loan borrowed by a third party, Shenzhen Ji Hai Industrial Company.

## Notes to the Financial Statements

*For the year ended 30 June 2006*

**37. CONTINGENT LIABILITIES** *(Continued)*

According to information provided by the management of Goldwiz Tongling, during the year ended 30 June 2006, Goldwiz Tongling has managed to repay a total amount of approximately RMB12.1 million to the plaintiffs by collecting its trade receivables. Regarding a claim of approximately RMB21.6 million, although Goldwiz Tongling has subsequently made certain repayment, it has not yet reached any settlement agreement with the plaintiff and the Company, being the alleged guarantor, has prudently made a provision under the alleged guarantee in the amount of RMB15 million. Accordingly, the contingent liabilities of the Group arising from the alleged guarantees at 30 June 2006 were approximately RMB128 million, after taking into account the aforesaid repayment made during the year and the abovementioned provision.

Subsequently and up to the date of this report, Goldwiz Tongling has made further repayments to the plaintiffs. Moreover, Goldwiz Tongling and one of the plaintiffs have reached an agreement to settle the amount claimed. The guarantee to the extent of RMB14.6 million allegedly provided by a PRC subsidiary of the Company in this regard has therefore been released. Regarding the remaining claims amounting to approximately RMB57.8 million, Goldwiz Tongling also has made certain repayments to the plaintiffs since the first trial in April 2006. Goldwiz Tongling and the plaintiffs are in the final stage of conclusion of a settlement agreement under the supervision of the Tongling Intermediate People's Court. Accordingly, the Group anticipates that the alleged guarantees will be released upon the successful settlement between Goldwiz Tongling and the plaintiffs and does not anticipate any significant liability arising therefrom.

The Company was advised that the contingent liabilities of the Group arising from the alleged guarantees would lapse upon the settlements of the indebtedness by Goldwiz Tongling.

Regarding the litigation amounting to RMB60.7 million relating to Shenzhen Ji Hai Industrial Company, the Company was advised by its legal adviser that the case would be defendable.

**38. RELATED PARTY TRANSACTIONS**

Additional to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

**(a) Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries and other short-term employee benefits | 2,399 | 1,556 |

**(b) Guarantee given by a former related company and a director of a former major shareholder against the bank loan granted to the Group**

A former related company and a director of a former major shareholder have given a corporate guarantee and personal guarantee to a bank to secure bank loan to the extent of RMB97,912,000 (2005: RMB100,000,000).

**(c) Management fee paid to a former major shareholder**

During the year, the Group paid management fee of RMB752,222 (2005: RMB381,600) to a subsidiary of the former major shareholder for the provision of administrative services by that former major shareholder. The service fee was charged at normal commercial terms.

**(d) Advance to a former major shareholder**

During the year, the Group advanced to its former major shareholder totally RMB2,134,000 (2005: RMB1,717,000). The advances are unsecured and interest-bearing. The amount was fully recovered by the year ended 30 June 2006.

**39. COMPARATIVE FIGURES**

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 3.

## 3. STATEMENT OF THE INDEBTEDNESS OF THE ENLARGED GROUP

### Borrowings of the Enlarged Group

As at the close of business on 31 October 2006, being the latest practicable date for the purpose of this statement of indebtedness of the Enlarged Group prior to the printing of the circular, the Enlarged Group had an unsecured bank loan of approximately RMB90,779,000 for which there was outstanding loan interest of approximately RMB9,030,000 and another unsecured loan of approximately RMB8,458,000.

### Contingent liabilities of the Enlarged Group

As at the close of business on 31 October 2006, being the latest practicable date for the purpose of this statement of indebtedness of the Enlarged Group prior to the printing of the circular, the Enlarged Group had contingent liabilities of approximately RMB119,386,000 under certain guarantees being allegedly issued by the Group for the loans borrowed by Goldwiz Huarui (Tongling) Electronic Material Company Limited ("Goldwiz Tongling"), a company in which the Company holds 18.52% unlisted equity interest, and a loan borrowed by a third party, Shenzhen Ji Hai Industrial Company. The amount of contingent liabilities excluded a provision of RMB15,000,000 which was made and recognized by the Group in relation to outstanding bank borrowing of Goldwiz Tongling under guarantee being allegedly issued by the Group to a bank.

### Security of the Enlarged Group

As at the close of business on 31 October 2006, the Enlarged Group had pledged certain investment properties with an aggregate carrying value of HK$14,150,000 to a bank for all general banking facilities granted to the Enlarged Group previously. However, all general banking facilities had been cancelled due to the full payment of mortgage loan although the relevant investment properties were still pledged to the bank. A property which is under development with aggregate carrying value of approximately RMB72,300,000 has been charged by a bank in respect of the alleged guarantees given by the Group relating to the indebtedness of Goldwiz Tongling.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities (including the Shareholder's Loan), the Enlarged Group did not have outstanding at the close of business on 31 October 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 October 2006.

Amounts in foreign currency have, for the purpose of this statement of indebtedness of the Enlarged Group, been translated into Renminbi at the applicable rate of exchange ruling at the close of business on 31 October 2006.

## 4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the contribution to be made by Weina Land, the existing banking facilities and financial resources available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements.

## 5. FINANCIAL AND TRADING PROSPECTS

The principal business activities of the Enlarged Group are investment holding, design, supply and integration of automation and control system, the trading of natural resources such as iron ore, iron sand, coal and other natural mineral products and property investment holding. It is the present intention of the Directors to diversify into property investment holding and the Directors consider such diversification will broaden the revenue base of the Company.

The Acquisition offers the Enlarged Group an opportunity to acquire commercial properties based in Hong Kong with stable rental income, thus enable the Enlarged Group to diversify into property investment holding and at the same time, broaden its revenue base. The payment consideration for the Acquisition in the form of Preference A Shares will better enhance the financial position of the Enlarged Group.

Going forward, the outlook of the Enlarged Group for the next financial year is positive. In its automation business, confidence of its customers has improved significantly and more opportunities are being offered to the Group. Adoption of free market policies has fuelled China's economy, which has created many opportunities for application of programmable logic controllers ("PLCs") and other automation systems and solutions. The demand for automation products and systems thrives distinctively in a developing economy that has a strong manufacturing and industrial base like China. Besides being able to offer imported automation products to its customers, the Enlarged Group can also provide its own proprietary products and solutions of PLCs, which will give the Enlarged Group a competitive edge.

As part of its diversification and expansion plan, the Enlarged Group has opened up its trading business in natural resources. The Enlarged Group has received support from two major suppliers in Indonesia for the supply of regular shipments of iron ores and coal. Also, subsequent to the balance sheet date of 30 June 2006, the Enlarged Group has entered into a joint venture agreement with an independent third party for the provision of technical services and export services for an Indonesia company in respect of certain mined products such as iron ore and iron sand. The Enlarged Group holds 25% equity interest in the joint venture company and the total maximum commitment will be approximately US$1.51 million which will be funded by internal resources of the Enlarged Group. The management believes that the investment in the JV Company will further strengthen its source of supply of iron ore and iron sand for the Enlarged Group's trading needs. Due to certain delay in the company registration procedures, production of the iron ore sand is estimated to be ready for trial shipment in early 2007.

Moreover, the Enlarged Group has settled the dispute over the construction of its R & D Centre in Shenzhen and construction work has been resumed. Completion of the Centre is expected to be finalized by the end of 2006. The Centre is a 7-storey building and is situated at the central of the Shenzhen Hi-tech Park. On completion, it will have a gross floor area of 17,586 sq. meters, including a basement car-park for approximately 60 vehicles. The Company believes that the Centre will contribute, upon its completion, a stable return to the Enlarged Group in term of rental income. The Company also expects improved earnings from automation business and good returns from its natural resources trading in the coming year.

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Enlarged Group since 30 June 2006, being the date to which the latest published financial statements of the Enlarged Group were made up.

## I. ACCOUNTANTS' REPORT ON WEINA LAND

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants of Weina Land, Peter K.H. Tong & Co., Certified Public Accountants (Practising). As described under "Documents available for inspection" in Appendix VI to this circular, a copy of the following accountants' report is available for inspection.

唐 啟 興 會 計 師 事 務 所
**PETER K.H. TONG & CO.**
*Certified Public Accountants (Practising)*

Room 802 Alliance Building,
133 Connaught Rd. Central, HK.
*Tel.: 2866-4300 Fax: 2866-4302*

11 December 2006

The Quaypoint Corporation Limited
Suite 1304, 13/F., Great Eagle Centre,
23 Harbour Road, Wanchai,
Hong Kong

Dear Sirs,

**INTRODUCTION**

We set out below our audit report on the financial information regarding Weina Land Limited ("Weina Land"), including the balance sheets of Weina Land as at 31 March 2004, 2005, and 2006 and 31 August 2006, the income statements, statements of changes in equity and cash flow statements of Weina Land for the years ended 31 March 2004, 2005, and 2006 and the five-month period ended 31 August 2006 (the "Relevant Periods"), and the notes thereto (the "Financial Information"), for inclusion in a circular issued by The Quaypoint Corporation Limited dated 11 December 2006 (the "Circular").

**CORPORATE INFORMATION OF WEINA LAND**

Weina Land is a private limited company incorporated in Hong Kong. Its ultimate holding company is Weina Group Limited, a limited liability company incorporated in the British Virgin Islands. Its intermediate holding company is Weina Holdings Limited ("Weina Holdings"), a private limited company incorporated in Hong Kong. The principal activities of Weina Land are property holding and investment.

**AUDIT REPORT ON THE FINANCIAL INFORMATION FOR THE RELEVANT PERIODS**

**Basis of preparation**

The financial statements of Weina Land for the Relevant Periods were prepared in accordance with generally accepted accounting principles in Hong Kong. The statutory financial statements of Weina Land for the years ended 31 March 2004, 2005 and 2006 and the five-month period ended 31 August 2006 were audited by our firm.

**Respective responsibilities of the Directors of Weina Land and Reporting Accountants**

The Directors of Weina Land are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. The Directors of The Quaypoint Corporation Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

**Basis of opinion**

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the Directors of Weina Land in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of Weina Land, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatements. In forming our opinion we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, for the purposes of this report, no adjustments were considered necessary and the Financial Information gives a true and fair view of the results and cash flows of Weina Land for each of the Relevant Periods, and of the balance sheets of Weina Land as at 31 March 2004, 2005, and 2006 and 31 August 2006.

## THE FINANCIAL INFORMATION

### A. INCOME STATEMENTS

| | | Year ended 31 March | | | 5 months ended 31 August |
|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2006 |
| | *Notes* | *HK$* | *HK$* | *HK$* | *HK$* |
| Turnover | 6 | 891,264 | 989,869 | 1,123,303 | 558,398 |
| Other revenue | 8 | 91,973 | 4,493 | 17,742 | – |
| Total revenue | | 983,237 | 994,362 | 1,141,045 | 558,398 |
| Administrative expenses | | (116,327) | (59,605) | (161,362) | (39,969) |
| Profit from operation before finance costs | | 866,910 | 934,757 | 979,683 | 518,429 |
| Finance costs | 9 | (750,432) | (704,463) | (449,239) | (172,068) |
| Operating profit | 10 | 116,478 | 230,294 | 530,444 | 346,361 |
| Increase in fair value of investment properties | | – | – | 26,746,700 | 978,300 |
| Profit before tax | | 116,478 | 230,294 | 27,277,144 | 1,324,661 |
| Taxation | 11 | – | – | – | – |
| Profit attributable to the equity holders of Weina Land | | 116,478 | 230,294 | 27,277,144 | 1,324,661 |
| Dividends | | – | – | – | – |

**Earnings per share**

Earnings per share has not been presented as such information is not considered meaningful having regard to the purpose of this report.

## B. BALANCE SHEETS

| | | As at 31 March | | | As at 31 August |
|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2006 |
| | *Notes* | *HK$* | *HK$* | *HK$* | *HK$* |
| **Assets and liabilities** | | | | | |
| **Non-current assets** | | | | | |
| Investment properties | 12 | 17,275,000 | 17,275,000 | 44,021,700 | 45,000,000 |
| **Current assets** | | | | | |
| Debtors and deposits paid | 13 | 90,088 | 117,154 | 95,118 | 92,809 |
| Bank balances | | 152,000 | 37,078 | 163,069 | 256,334 |
| | | 242,088 | 154,232 | 258,187 | 349,143 |
| **Total assets** | | 17,517,088 | 17,429,232 | 44,279,887 | 45,349,143 |
| **Current liabilities** | | | | | |
| Creditors and accrued charges | 14 | 82,613 | 26,396 | 67,360 | 6,000 |
| Rental deposits from tenants | | 285,126 | 277,602 | 364,413 | 364,413 |
| Amount due to an intermediate holding company | 15 | 28,279,342 | 28,756,632 | – | 42,823,377 |
| Amount due to a director | 16 | 6,808,975 | 8,415,054 | 34,217,422 | – |
| Bank borrowings due within 1 year | 17 | 6,726,667 | 6,100,000 | 8,800,000 | – |
| | | 42,182,723 | 43,575,684 | 43,449,195 | 43,193,790 |
| **Net current liabilities** | | (41,940,635) | (43,421,452) | (43,191,008) | (42,844,647) |
| **Total assets less current liabilities** | | (24,665,635) | (26,146,452) | 830,692 | 2,155,353 |
| **Non-current liabilities** | | | | | |
| Bank borrowings due after 1 year | 17 | 2,011,111 | 300,000 | – | – |
| **Net assets (liabilities)** | | (26,676,746) | (26,446,452) | 830,692 | 2,155,353 |
| **Capital and reserves** | | | | | |
| Share capital | 18 | 2 | 2 | 2 | 2 |
| Retained profits (Losses) | | (26,676,748) | (26,446,454) | 830,690 | 2,155,351 |
| **Total equity** | | (26,676,746) | (26,446,452) | 830,692 | 2,155,353 |

## C. STATEMENTS OF CHANGES IN EQUITY

| | Share capital<br>*HK$* | (Losses)<br>Retained profits<br>*HK$* | Total<br>*HK$* |
|---|---|---|---|
| At 1 April 2003 | 2 | (26,793,226) | (26,793,224) |
| Profit for the year | – | 116,478 | 116,478 |
| At 31 March 2004 | 2 | (26,676,748) | (26,676,746) |
| Profit for the year | – | 230,294 | 230,294 |
| At 31 March 2005 | 2 | (26,446,454) | (26,446,452) |
| Profit for the year | – | 27,277,144 | 27,277,144 |
| At 31 March 2006 | 2 | 830,690 | 830,692 |
| Profit for the period | – | 1,324,661 | 1,324,661 |
| At 31 August 2006 | 2 | 2,155,351 | 2,155,353 |

## D. CASH FLOW STATEMENTS

| | Year ended 31 March | | | 5 months ended 31 August |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| **Operating activities** | | | | |
| Profit before tax | 116,478 | 230,294 | 27,277,144 | 1,324,661 |
| Adjustments for | | | | |
| Finance costs | 750,432 | 704,463 | 449,239 | 172,068 |
| Increase in fair value of investment properties | – | – | (26,746,700) | (978,300) |
| **Operating cash flow before movements in working capital** | 866,910 | 934,757 | 979,683 | 518,429 |
| (Increase) Decrease in debtors and deposits paid | (7,671) | (27,066) | 22,036 | 2,309 |
| Increase (Decrease) in creditors and accrued charges | (65,407) | (56,217) | 40,964 | (61,360) |
| Increase (Decrease) in rental deposits from tenants | (135,710) | (7,524) | 86,811 | – |
| **Cash generated from operations** | 658,122 | 843,950 | 1,129,494 | 459,378 |
| Interest paid | (750,432) | (704,463) | (449,239) | (172,068) |
| **Net cash generated from (used in) operating activities** | (92,310) | 139,487 | 680,255 | 287,310 |
| **Financing activities** | | | | |
| Increase (Decrease) in amount due to an intermediate holding company | 19,307,028 | 477,290 | (28,756,632) | 42,823,377 |
| Increase (Decrease) in amount due to a director | (14,148,499) | 1,606,079 | 25,802,368 | (34,217,422) |
| Repayments of bank borrowings | (5,186,667) | (4,837,778) | (600,000) | (8,800,000) |
| New bank borrowings raised | – | 2,500,000 | 3,000,000 | – |
| **Net cash used in financing activities** | (28,138) | (254,409) | (554,264) | (194,045) |
| **Net increase (decrease) in cash and cash equivalents** | (120,448) | (114,922) | 125,991 | 93,265 |
| **Cash and cash equivalents brought forward** | 272,448 | 152,000 | 37,078 | 163,069 |
| **Cash and cash equivalents carried forward** | 152,000 | 37,078 | 163,069 | 256,334 |
| **Analysis of balances of cash and cash equivalents** | | | | |
| **Bank balances** | 152,000 | 37,078 | 163,069 | 256,334 |

## E. NOTES TO THE FINANCIAL INFORMATION

### 1. General

Weina Land is a private limited company incorporated in Hong Kong. Its intermediate holding company is Weina Holdings, a private limited company incorporated in Hong Kong. Its ultimate holding company is Weina Group Limited, a limited liability company incorporated in the British Virgin Islands. The address of the registered office and principal place of business of Weina Land is Room 1201, Tower 1, Silvercord, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

Weina Land is engaged in the business of property holding and investment.

The Financial Information is presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of Weina Land.

### 2. Basis of preparation of the Financial Information

In preparing the Financial Information, the Directors of Weina Land have given careful consideration to the future liquidity of Weina Land in light of its net current liabilities for the Relevant Periods. On the basis of the additional funding secured by Weina Land as detailed in notes 15 and 16, the Directors of Weina Land believe that Weina Land will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Financial Information has been prepared on a going concern basis.

### 3. Significant accounting policies

The Financial Information has been prepared on the historical cost basis except for investment properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and using accounting policies which are materially consistent with that used by The Quaypoint Corporation Limited.

#### Revenue recognition

Rental income, including rentals invoiced in advance, from properties under operating leases is recognised on a straight line basis over the lease terms.

#### Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where Weina Land is the lessor, assets leased by Weina Land under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on a straight line basis over the lease periods.

**Investment properties**

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the income statement for the period in which they arise.

**Borrowing costs**

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when Weina Land becomes a party to the contractual provisions of the instrument.

Debtors and deposits paid

Debtors and deposits paid are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities issued by Weina Land are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability.

Creditors and accrued charges, rental deposits from tenants, amount due to an intermediate holding company/a director and bank borrowings.

These financial liabilities are initially measured at their fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Taxation**

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets 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. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Related parties**

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or corporate entities.

**4. Key sources of estimation uncertainty**

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

**Estimate of fair value of investment properties**

The investment properties were revalued at the balance sheet dates by the Directors of Weina Land with reference to market sales evidence of same or similar properties. Such valuations, which are subject to uncertainty, might materially differ from the actual results.

**Deferred tax**

Estimating the amount for deferred tax asset arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing Weina Land's ability to utilise tax benefits through future earnings. Due to the unpredictability of future profit streams, the Directors of Weina Land do not recognise any deferred tax asset arising from tax losses.

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

Weina Land's major financial instruments include bank balances, amount due to an intermediate holding company, amount due to a director and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. The Directors of Weina Land manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Credit risk**

Weina Land's credit risks are primarily attributable to rent receivable from tenants and bank balances. For rent receivable from tenants, credit checks are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Directors of Weina Land review the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts and also minimize the credit risk by forfeitures of rental deposits from tenants. For bank balances, credit risk is also limited because the counter-parties are banks with high credit ratings assigned by international credit-rating agencies.

**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Weina Land aims at maintaining the flexibility in funding by arranging banking facilities and through financing from an intermediate holding company and a director. Therefore, the risk is considered minimal.

**Interest rate risk**

Interest rate risk arises from the potential changes in interest rates that may have adverse effects in Weina Land's results for the Relevant Periods and in future years.

The interest rate exposure for Weina Land is restricted to the financing costs for borrowings from banks and an intermediate holding company which are subject to floating-rate interest. In this regard, the Directors of Weina Land consider that Weina Land's interest rate risk is minimised.

## 6. Turnover

Turnover represents rental income received and receivable from property lettings and comprises:

| | | Year ended 31 March | | 5 months ended 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Rental income | 891,264 | 989,869 | 1,123,303 | 558,398 |

## 7. Business and geographical segments

**Business segments**

Weina Land comprises only one business segment which is property rental.

**Geographical segments**

During the Relevant Periods, 100% of the operations of Weina Land in terms of turnover, segment results and assets were carried in or were situated in Hong Kong. Accordingly, no geographical segmental information is shown.

**8. Other revenue**

| | Year ended 31 March | | | 5 months ended 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Compensation on early termination of tenancy agreements by tenants | 62,262 | – | – | – |
| Forfeitures of rental deposits | 29,011 | – | 17,721 | – |
| Others | 700 | 4,493 | 21 | – |
| | 91,973 | 4,493 | 17,742 | – |

**9. Finance costs**

| | Year ended 31 March | | | 5 months ended 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Interest on bank borrowings | | | | |
| Wholly repayable within 5 years | 400,544 | 177,173 | 449,239 | 172,068 |
| Interest paid to an intermediate holding company | 349,888 | 527,290 | – | – |
| | 750,432 | 704,463 | 449,239 | 172,068 |

**10. Operating profit**

Operating profit has been arrived at after charging:

| | Year ended 31 March | | | 5 months ended 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Auditors' remuneration | 8,000 | 9,000 | 9,000 | 6,000 |
| Directors' remuneration | | | | |
| Fees | – | – | – | – |
| Other emoluments | – | – | – | – |
| Staff costs | – | – | – | – |

**11. Taxation**

No provision for Hong Kong Profits Tax had been made in the years ended 31 March 2004 and 2005 as Weina Land incurred a tax loss for the year; and in the year ended 31 March 2006 and the five month-period ended 31 August 2006 as the estimated assessable profits for the respective year and period were wholly absorbed by tax losses brought forward.

Taxation for the Relevant Periods can be reconciled to the profit before tax per the income statements as follows:

| | Year ended 31 March | | | 5 months ended 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Profit before tax | 116,478 | 230,294 | 27,277,144 | 1,324,661 |
| Tax at the Hong Kong Profits Tax rate of 17.5% | 20,384 | 40,301 | 4,773,500 | 231,815 |
| Tax effect of non-taxable income | – | – | (4,680,672) | (171,202) |
| Tax effect of tax losses not recognised | (20,384) | (40,301) | (92,828) | (60,613) |
| Taxation | – | – | – | – |

No provision for deferred tax asset had been made in the Relevant Periods as the Directors of Weina Land could not be certain that the tax losses of approximately HK$8,316,000, HK$8,567,000, HK$8,517,000 and HK$8,371,000 in the years ended 31 March 2004, 2005 and 2006 and the five month-period ended 31 August 2006 respectively would be utilised in the foreseeable future due to the unpredictability of future profit streams.

**12. Investment properties**

| | *HK$* |
|---|---|
| Valuation | |
| At 1 April 2003, 31 March 2004 and 2005 | 17,275,000 |
| Increase in fair value | 26,746,700 |
| At 31 March 2006 | 44,021,700 |
| Increase in fair value | 978,300 |
| At 31 August 2006 | 45,000,000 |

The carrying amount of investment properties held by Weina Land comprises:

| | As at 31 March | | | As at 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Leasehold properties in Hong Kong | | | | |
| Long-term | 11,033,000 | 11,033,000 | 26,334,000 | 27,300,000 |
| Medium-term | 6,242,000 | 6,242,000 | 17,687,700 | 17,700,000 |
| | 17,275,000 | 17,275,000 | 44,021,700 | 45,000,000 |

Weina Land's investment properties are held for rental purposes under operating leases and its fair values as at 31 March 2004, 2005, and 2006 and 31 August 2006 had been arrived at on the basis of a valuation carried out at that dates by the Directors of Weina Land with reference to market sales evidences of same or similar properties.

**13. Debtors and deposits paid**

Included in debtors and deposits paid are trade debtors of HK$16,943, HK$48,726, HK$38,286 and HK$35,976 as at 31 March 2004, 2005, and 2006 and 31 August 2006 respectively comprising mainly rental receivables which are normally payable in advance. Rents in arrears of Weina Land as at 31 March 2004, 2005, and 2006 and 31 August 2006 were aged less than 90 days.

The Directors of Weina Land consider that the carrying values of these amounts at the balance sheet dates approximate their fair values.

**14. Creditors and accrued charges**

There were no trade payables included in creditors and accrued charges as at 31 March 2004, 2005, and 2006 and 31 August 2006.

The Directors of Weina Land consider that the carrying values of these amounts at the balance sheet dates approximate their fair values.

**15. Amount due to an intermediate holding company**

| | As at 31 March | | | As at 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Amount due to an intermediate holding company | 28,279,342 | 28,756,632 | – | 42,823,377 |
| Security given | nil | nil | nil | nil |
| Interest bearing | HK$ prime rate less 2.5% | HK$ prime rate less 2% | non-interest bearing | non-interest bearing |
| Repayment terms | on demand | on demand | on demand | on demand |

The Directors of Weina Land consider that the carrying value of the amount at each balance sheet date approximate its fair value. Letter of support was given to Weina Land by the intermediate holding company that they have agreed to provide adequate funds to enable Weina Land to meet in full its financial obligations as they fall due for the foreseeable future and agreed not to demand repayments of the amount due to them until Weina Land is in a position to repay. Accordingly, the Financial Information has been prepared on a going concern basis.

**16. Amount due to a director**

Amounts due to a director as at 31 March 2004, 2005, and 2006 and 31 August 2006 are unsecured, non-interest bearing and repayable on demand. The Directors of Weina Land consider that the carrying value of the amount at each balance sheet date approximate its fair value. Letter of support was given to Weina Land by the director that he has agreed to provide adequate funds to enable Weina Land to meet in full its financial obligations as they fall due for the foreseeable future and agreed not to demand repayments of the amount due to him until Weina Land is in a position to repay. Accordingly, the Financial Information has been prepared on a going concern basis.

**17. Bank borrowings**

Bank borrowings, which are secured by certain investment properties of Weina Land and certain Weina Land's Directors' personal properties; and guarantees given by the intermediate holding company, a group company and certain Weina Land's Directors, bear interest at market rates and comprise:

| | | As at 31 March | | As at 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Bank loans | 8,737,778 | 6,400,000 | 8,800,000 | – |
| Bank borrowings are repayable as follows: | | | | |
| Within 1 year or on demand | 6,726,667 | 6,100,000 | 8,800,000 | – |
| More than 1 year but not exceeding 2 years | 1,711,111 | 300,000 | – | – |
| More than 2 years but not exceeding 5 years | 300,000 | – | – | – |
| | 8,737,778 | 6,400,000 | 8,800,000 | – |
| Less: | | | | |
| Amount repayable within 1 year and shown under current liabilities | 6,726,667 | 6,100,000 | 8,800,000 | – |
| Amount due after 1 year | 2,011,111 | 300,000 | – | – |

Bank borrowings are in Hong Kong dollars and bear interests at prevailing market rates and its fair values, estimated by discounting their future cash flows at the prevailing market borrowing rates at each balance sheet date, approximate its carrying values.

Details of the assets of Weina Land pledged to secure bank borrowings are set out in note 19.

## 18. Share capital

| | | As at 31 March | | As at 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Authorised | | | | |
| 10,000 shares of HK$1 each | 10,000 | 10,000 | 10,000 | 10,000 |
| Issued and fully paid | | | | |
| 2 shares of HK$1 each | 2 | 2 | 2 | 2 |

## 19. Pledge of assets

At 31 March 2004, Weina Land's investment properties with aggregate carrying values of HK$12,845,000 and HK$4,430,000 were pledged to banks to secure general banking facilities granted to Weina Land and its intermediate holding company respectively.

At 31 March 2005, Weina Land's investment properties with aggregate carrying values of HK$8,457,000 and HK$4,430,000 were pledged to banks to secure general banking facilities granted to Weina Land and its intermediate holding company respectively.

At 31 March 2006, Weina Land's investment properties with aggregate carrying values of HK$22,954,500, HK$10,533,600 and HK$10,533,600 were pledged to banks to secure general banking facilities granted to Weina Land, its intermediate holding company and a fellow subsidiary respectively.

At 31 August 2006, Weina Land's investment properties with aggregate carrying values of HK$36,000,000 were pledged to banks even though Weina Land had fully repaid all bank borrowings within the five month-period ended 31 August 2006. All general banking facilities granted to Weina Land; its intermediate holding company; and a fellow subsidiary had been cancelled either within the five month-period ended 31 August 2006 or thereafter.

## 20. Operating lease arrangements

**Weina Land as lessor**

At the balance sheet date, Weina Land had contracted with tenants for the following future minimum lease payments:

| | As at 31 March | | | As at 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Within 1 year | 931,120 | 829,941 | 1,240,670 | 1,154,995 |
| In the 2nd to 5th years inclusive | 259,582 | 515,460 | 421,717 | 159,666 |
| | 1,190,702 | 1,345,401 | 1,662,387 | 1,314,661 |

Operating lease payments represent rentals receivable by Weina Land from its investment properties. Leases are negotiated and rentals are fixed for an average of one to two years.

## 21. Related party transactions

During the Relevant Periods, Weina Land entered into the following transactions with related parties:

| | Year ended 31 March | | | 5 months ended 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Interest paid to an intermediate holding company | 349,888 | 527,290 | – | – |

| | As at 31 March | | | As at 31 August |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| Amount due to an intermediate holding company | 28,279,342 | 28,756,632 | – | 42,823,377 |
| Amount due to a director | 6,808,975 | 8,415,054 | 34,217,422 | – |

**22. Subsequent events**

On 21 September 2006, Weina Land's investment properties with aggregate carrying values of HK$21,850,000 were released and discharged by banks.

On 17 November 2006, The Quaypoint Corporation Limited (the "Purchaser"), entered into an agreement with Weina Holdings; the intermediate holding company of Weina Land; pursuant to which Weina Holdings agrees to sell and the Purchaser agrees to buy the entire issued share capital of Weina Land, at an aggregate consideration of HK$44,000,000.

Save as disclosed above and elsewhere in the Financial Information, there were no significant events subsequent to 31 August 2006.

Yours faithfully,
**Peter K.H. Tong & Co.**
*Certified Public Accountants (Practising)*
Hong Kong

## II. MANAGEMENT DISCUSSION AND ANALYSIS ON WEINA LAND

The management discussion and analysis on Weina Land for each of the three years ended 31 March 2004, 2005 and 2006 and for the five months ended 31 August 2006 is set out below.

**Year ended 31 March 2004**

For the year ended 31 March 2004, turnover was HK$891,264, which represented rental income received and receivable from leasing of the properties held. Apart from rental income, other revenue in relation to compensation on early termination of tenancy agreements by tenants, forfeitures of rental deposits and other items amounted to HK$91,973. Total revenue generated was therefore, amounted to HK$983,237. After the deduction of administrative expenses and finance costs, totaling HK$116,327 and HK$750,432 (included HK$349,888 as interest paid to an intermediate holding company) respectively, an operating profit of HK$116,478 was recorded, which was also the net profit attributable to the equity holders of Weina Land.

As at 31 March 2004, Weina Land had total assets of HK$17,517,088, of which, HK$17,275,000 (or approximately 98.6%) was the aggregate carrying amount of its portfolio of investment properties held. The gearing ratio (defined as total liabilities over total assets) of Weina Land as at 31 March 2004 was approximately 252%.

**Year ended 31 March 2005**

For the year ended 31 March 2005, turnover was HK$989,869, which represented rental income received and receivable from leasing of the properties held. Apart from rental income, other revenue in relation to other items amounted to HK$4,493. Total revenue generated was therefore, amounted to HK$994,362. After the deduction of administrative expenses and finance costs, totaling HK$59,605 and HK$704,463 (included HK$527,290 as interest paid to an intermediate holding company) respectively, an operating profit of HK$230,294 was recorded, which was also the net profit attributable to the equity holders of Weina Land.

As at 31 March 2005, Weina Land had total assets of HK$17,429,232, of which, HK$17,275,000 (or approximately 99.1%) was the aggregate carrying amount of its portfolio of investment properties held. The gearing ratio (defined as total liabilities over total assets) of Weina Land as at 31 March 2005 was approximately 251%.

**Year ended 31 March 2006**

For the year ended 31 March 2006, turnover was HK$1,123,303, which represented rental income received and receivable from leasing of the properties held. Apart from rental income, other revenue in relation to forfeitures of rental deposits and other items amounted to HK$17,742. Total revenue generated was therefore, amounted to HK$1,141,045. After the deduction of administrative expenses and finance costs, totaling HK$161,362 and HK$449,239 respectively, an operating profit of HK$530,444 was recorded. There was also an increase in fair value of investment properties of HK$26,746,700, which together with the HK$530,444 operating profit, resulted in a profit before tax and net profit attributable to the equity holders of Weina Land of both HK$27,277,144.

As at 31 March 2006, Weina Land had total assets of HK$44,279,887, of which, HK$44,021,700 (or approximately 99.4%) was the aggregate carrying amount of its portfolio of investment properties held. The gearing ratio (defined as total liabilities over total assets) of Weina Land as at 31 March 2006 was approximately 98%.

**5 months ended 31 August 2006**

For the five months ended 31 August 2006, turnover was HK$558,398, which represented rental income received and receivable from leasing of the properties held. There was no other revenue. After the deduction of administrative expenses and finance costs, totaling HK$39,969 and HK$172,068 respectively, an operating profit of HK$346,361 was recorded. There was also an increase in fair value of investment properties of HK$978,300, which together with the HK$346,361 operating profit, resulted in a profit before tax and net profit attributable to the equity holders of Weina Land of both HK$1,324,661.

As at 31 August 2006, Weina Land had total assets of HK$45,349,143, of which, HK$45,000,000 (or approximately 99.2%) was the aggregate carrying amount of its portfolio of investment properties held. The gearing ratio (defined as total liabilities over total assets) of Weina Land as at 31 August 2006 was approximately 95%.

## (A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

### (I) Introduction

The following is the unaudited pro forma statement of assets and liabilities of the Enlarged Group and has been prepared to illustrate the effect of the Acquisition as if the Acquisition had been completed on 30 June 2006. Such unaudited proforma statement of assets and liabilities should be read in conjunction with the financial information of the Group as set out in Appendix II, the financial information of Weina Land as set out in Appendix III and other financial information included elsewhere in this circular.

Given that the unaudited pro forma statement of assets and liabilities is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2006 or for any financial period end.

### (II) Unaudited pro forma balance sheet of the Enlarged Group

**As at 30 June 2006**

| | Group At 30 June 2006 | Weina Land At 31 August 2006 | Subtotal | Pro forma Adjustment | Note | Pro Forma Enlarged Group |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *Note* | *RMB'000* |
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 2,796 | – | 2,796 | | | 2,796 |
| Investment properties | – | 46,800 | 46,800 | | | 46,800 |
| Properties under development | 72,285 | – | 72,285 | | | 72,285 |
| Prepaid lease payment | 1,987 | – | 1,987 | | | 1,987 |
| | 77,068 | 46,800 | 123,868 | | | 123,868 |
| **Current assets** | | | | | | |
| Inventories | 2,459 | – | 2,459 | | | 2,459 |
| Trade receivables | 1,679 | – | 1,679 | | | 1,679 |
| Prepayments, deposits and other receivables | 5,939 | 96 | 6,035 | | | 6,035 |
| Cash and bank balances | 96,765 | 267 | 97,032 | | | 97,032 |
| | 106,842 | 363 | 107,205 | | | 107,205 |

| | Group At 30 June 2006 *RMB'000* | Weina Land At 31 August 2006 *RMB'000* | Subtotal *RMB'000* | Pro forma Adjustment *RMB'000* | *Note* | Pro Forma Enlarged Group *RMB'000* |
|---|---|---|---|---|---|---|
| **Current liabilities** | | | | | | |
| Trade payables | (2,642) | – | (2,642) | | | (2,642) |
| Provision, accrual and other payables | (34,423) | (385) | (34,808) | | | (34,808) |
| Receipts in advance | (612) | – | (612) | | | (612) |
| Due to a director | (1,025) | – | (1,025) | | | (1,025) |
| Due to an intermediate holding company | – | (44,536) | (44,536) | 44,536 | 1 | – |
| Current portion of interest-bearing borrowings | (4,798) | – | (4,798) | | | (4,798) |
| Short-term bank loan | (97,912) | – | (97,912) | | | (97,912) |
| Taxation payable | (8,534) | – | (8,534) | | | (8,534) |
| | (149,946) | (44,921) | (194,867) | | | (150,331) |
| **Net current liabilities** | (43,104) | (44,558) | (87,662) | | | (43,126) |
| **Total assets less current liabilities** | 33,964 | 2,242 | 36,206 | | | 80,742 |
| **EQUITY AND LIABILITIES** | | | | | | |
| **Capital and reserves** | | | | | | |
| Ordinary share capital | 37,100 | – | 37,100 | – | 2 | 37,100 |
| Convertible redeemable preference shares | 104,000 | – | 104,000 | | | 104,000 |
| Convertible redeemable preference A shares | – | – | – | 45,760 | 3 | 45,760 |
| Reserves | (111,816) | 2,242 | (109,574) | (1,224) | 2 & 4 | (110,798) |
| | 29,284 | 2,242 | 31,526 | | | 76,062 |
| **Non current liability** | | | | | | |
| Interest-bearing borrowings | 4,680 | – | 4,680 | | | 4,680 |
| | 33,964 | 2,242 | 36,206 | | | 80,742 |

*Notes:*

**Consideration of the Acquisition**

Pursuant to the sale and purchase agreement dated 17 November 2006 (the "Agreement") entered into between the Company, Weina Holdings Limited ("Weina Holdings") and Mr. Tsim Wing Kong, Weina Holdings shall assign the amount of HK$42,823,377 (equivalent to RMB44,536,312) under the Shareholder's Loan of Weina Land to the Company. The aggregate consideration payable by the Company for the proposed acquisition of the entire equity interest in Weina Land and the assigned debt is HK$44,000,000 (equivalent to RMB45,760,000), to be satisfied by way of issuance of the 110,000,000 Preference A Shares of the Company at HK$0.4 each to Weina Holdings or its nominees. The unaudited pro forma adjustments represent the recognition of the preference shares and the settlement of assigned debt as if the Preference A shares were issued on 30 June 2006.

**Excess of the net fair value of the acquired net assets over consideration of the Acquisition**

Upon completion of the Acquisition, identifiable assets and liabilities of Weina Land will be accounted for in consolidated financial statements of the Group at their fair value under the purchase method of accounting. The identifiable assets and liabilities of Weina Land are recorded in the unaudited pro forma balance sheet of the Enlarged Group at their fair value as if the Acquisition was completed on 30 June 2006. The amount of excess of the net fair value of the acquired net assets (amounted to HK$2,155,353/RMB2,241,567) over the consideration of acquisition of net assets (amounted to HK$1,176,623/RMB1,223,688 as explained in note 4 below) amounted to HK$978,730 (equivalent to RMB1,017,879) which is recognised in and credited to the reserves in the unaudited pro forma balance sheet as if the Acquisition was completed on 30 June 2006.

Details of the adjustments made in relation to the preparation of the unaudited pro forma Balance Sheet of the Enlarged Group are set out below:

1. The adjustment represents the elimination of intercompany balances between the Group and Weina Land as if Weina Land became a subsidiary of the Group. In accordance with the Agreement, the amount of HK$42,823,377 (equivalent to RMB44,536,312) due from Weina Land to Weina Holdings will be assigned to the Company upon the completion of the Acquisition. This adjustment dose not have impact on profit or loss.

2. The adjustments represent the elimination of the Group's 100% equity interests in Weina Land, including the share capital and pre-acquisition reserves of Weina Land amounted to HK$2 (equivalent to RMB2) and HK$2,155,351 (equivalent to RMB2,241,565) respectively against the cost of acquisition amounted to HK$1,176,623 (equivalent to RMB1,223,688) as explained in note 4 below and the recognition of negative goodwill amounted to HK$978,730 (equivalent to RMB1,017,879), upon the completion of the Acquisition and consolidation of 100% equity interest in Weina Land. This adjustment involves recognition of negative goodwill as income in profit or loss (see note 4 below).

3. The adjustments represent the issue of 110,000,000 Preference A shares at the issue price of HK$0.40 (equivalent to RMB0.416) per share by the Company upon the Acquisition, giving rise to an increase in Preference A shares of HK$44,000,000 (equivalent to RMB45,760,000). This adjustment dose not have impact on profit or loss.

4. The adjustment represents the amount of excess of the net fair value of the acquired net assets over the cost of acquisition of net assets ("Excess") of HK$978,730 (equivalent to RMB1,017,879). Based on the determination of the directors, the carrying amounts of the acquired net assets presented in the audited financial statements of Weina Land approximate their fair value (i.e. HK$2,155,353/RMB2,241,567).

   The Excess is resulted from the comparison of the consideration of the acquisition of net assets (i.e. HK$44,000,000/RMB45,760,000 – HK$42,823,377/RMB44,536,312 (fair value of shareholder's loan) = HK$1,176,623/RMB1,223,688) and the fair value of the acquired net assets and is recognized immediately in profit or loss as income and credited to the reserve upon the completion of the Acquisition in accordance with Hong Kong Financial Reporting Standard 3 *(paragraph 56) Business Combinations*.

## (B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the auditors of the Company, Moores Rowland Mazars. As described under "Documents available for inspection" in Appendix VI to this circular, a copy of the following report is available for inspection.

Moores Rowland Mazars
摩斯倫・馬賽會計師事務所

11 December 2006

The Directors
The Quaypoint Corporation Limited
Suite 1304, 13/F
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Dear Sirs

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

We report on the unaudited pro forma financial information of The Quaypoint Corporation Limited (the "Company") and its subsidiaries including the proposed acquisition (hereinafter collectively referred to as the "Group") set out on pages 107 to 109 in Appendix IV to the circular of the Company dated 11 December 2006 in connection with the acquisition of the entire issued shares in a company with interests in properties (the "Acquisition"). The unaudited pro forma financial information has been prepared by the Company, for illustrative purposes only, to provide financial information about how the Acquisition might have affected the audited consolidated balance sheet of the Company and its subsidiaries as at 30 June 2006.

The basis of preparation of the unaudited pro forma financial information is set out in the section headed "Introduction" and notes to the unaudited pro forma financial information in Section A of Appendix IV to the circular.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information 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 work 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, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagement issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited pro forma 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 4.29(1) of the Listing Rules.

The unaudited pro forma financial information has been prepared based on the directors' judgement and assumptions as set out on pages 107 to 109 in Appendix IV to the circular for illustrative purpose only and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2006 or at any future date.

**Opinion**

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated therein;

(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 4.29(1) of the Listing Rules.

Yours faithfully

**Moores Rowland Mazars**
**Chartered Accountants**
*Certified Public Accountants*
Hong Kong

*The followings is the text of the letter from Vigers Appraisal & Consulting Limited, an independent professional surveyor and valuer, in connection with its valuation of various properties owned by Weina Land. As described under "Documents available for inspection" in Appendix VI to this circular, a copy of the following letter is available for inspection.*

**Vigers Appraisal & Consulting Limited**
International Property Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

1 December 2006

The Directors
The Quaypoint Corporation Limited
Suit 1304, 13/F.,
Great Eagle Centre
No. 23 Harbour Road
Hong Kong

Dear Sirs,

**Re: Valuation of Various Properties in Hong Kong**

In accordance with your instructions for us to assess the market values of the property interests of Weina Land Limited, we confirm that we have carried out inspection, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the values as at 31 October 2006.

Our valuation is our opinion of the market value and we define market value 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 proper marketing wherein the parties had each acted knowledgeable, prudently and without compulsion".

Our valuation has been made on the assumption that the owner sell the properties on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to increase or decrease the values of the properties.

We have relied to a considerable extent on information provided by you and have accepted advice given to us on such matters as statutory notices, easements, tenure, occupation, floor areas and all other relevant matters. We have carried out searches at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain the existence of any lease amendments which might not appear on the copies handed to us. All dimensions, measurements and areas are approximate.

We have inspected the exterior of the properties. We have not carried out any structural survey nor have we inspected woodwork or other parts of the structures which were covered, unexposed or inaccessible. We are therefore unable to confirm whether the property was free from rot, infestation or any other defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the properties. We are therefore unable to report that the properties were free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the properties.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties interests nor for any expenses or taxation which might be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties were free from encumbrances, restrictions and outgoings of an onerous nature which could affect the values.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
**VIGERS APPRAISAL & CONSULTING LIMITED**
**David Cheung**
*MHKIS, MRICS, CREA, RPS(GP), MCIArb*
*Executive Director*

**Summary of Valuation:**

| | Property | Capital value in existing state as at 31 October 2006 *(HK$)* |
|---|---|---|
| 1 | Unit 302 on 3rd Floor, Lippo Sun Plaza, No. 28 Canton Road, Kowloon. | 8,700,000 |
| 2 | Unit 702 on 7th Floor, Lippo Sun Plaza, No. 28 Canton Road, Kowloon. | 9,000,000 |
| 3 | Unit No. 520 on 5th Floor, East Ocean Centre, No. 98 Granville Road, Kowloon. | 5,400,000 |
| 4 | Unit Nos. 708 & 709 on 7th Floor, East Ocean Centre, No. 98 Granville Road, Kowloon. | 11,000,000 |
| 5 | Unit No. 711 on 7th Floor, East Ocean Centre, No. 98 Granville Road, Kowloon. | 5,450,000 |
| 6 | Unit No. 713 on 7th Floor, East Ocean Centre, No. 98 Granville Road, Kowloon. | 5,450,000 |
| | **Total:** | 45,000,000 |

## VALUATION CERTIFICATE

| | Property | Description and Tenure | Particular of Occupancy | Capital value in existing state as at 31 October 2006 |
|---|---|---|---|---|
| 1. | Unit 302 on 3rd Floor, Lippo Sun Plaza, No. 28 Canton Road, Kowloon.<br><br>The property comprises 119,971/100,000,000 shares of and in Kowloon Lot No. 10722. | The property comprises an office unit on 3rd floor of a 19-storey (including 2 basements) commercial building completed in 1988.<br><br>The saleable area of the property is approximately 851 sq.ft. (79.06 sq.m.).<br><br>The property is held under Conditions of Sale No. 11856 for a term from 24 October 1985 to 30 June 2047.<br><br>The government rent payable for the property is 3% of the then rateable value. | The property is subject to a tenancy expiring on 31 March 2007 at a monthly rent of HK$19,025 exclusive of rates and management fees. | HK$8,700,000 |

*Notes:*

1. The registered owner of the subject property is Weina Land Limited.

2. The subject property is subject to a mortgage to secure general banking facilities in favour of the Hongkong Chinese Bank Limited.

| | Property | Description and Tenure | Particular of Occupancy | Capital value in existing state as at 31 October 2006 |
|---|---|---|---|---|
| 2. | Unit 702 on 7th Floor, Lippo Sun Plaza, No. 28 Canton Road, Kowloon.<br><br>The property comprises 122,535/100,000,000 shares of and in Kowloon Lot No. 10722. | The property comprises an office unit on 7th floor of a 19-storey (including 2 basements) commercial building completed in 1988.<br><br>The saleable area of the property is approximately 851 sq.ft. (79.06 sq.m.).<br><br>The property is held under Conditions of Sale No. 11856 for a term from 24 October 1985 to 30 June 2047.<br><br>The government rent payable for the property is 3% of the then rateable value. | The property is subject to a tenancy expiring on 29 February 2008 at a monthly rent of HK$26,611 exclusive of rates and management fees. | HK$9,000,000 |

*Notes:*

1. The registered owner of the subject property is Weina Land Limited.

| | Property | Description and Tenure | Particular of Occupancy | Capital value in existing state as at 31 October 2006 |
|---|---|---|---|---|
| 3. | Unit No. 520 on 5th Floor, East Ocean Centre, No. 98 Granville Road, Kowloon.<br><br>The property comprises 14/8,000 shares of and in Kowloon Lot No. 10601. | The property comprises an office unit on 5th floor of a 17-storey (including 2 basements) commercial building completed in 1982.<br><br>The saleable area of the property is approximately 576 sq.ft. (53.51 sq.m.).<br><br>The property is held under Conditions of Sale No. UB11285 for a term of 75 years commencing from 9 January 1979 and renewed for a further term of 75 years.<br><br>The government rent payable for the lot is HK$1,000 per annum. | The property is subject to a tenancy expiring on 31 August 2007 at a monthly rent of HK$17,556 exclusive of rates and management fees. | HK$5,400,000.00 |

*Notes:*

1. The registered owner of the subject property is Weina Land Limited.

| | Property | Description and Tenure | Particular of Occupancy | Capital value in existing state as at 31 October 2006 |
|---|---|---|---|---|
| 4. | Unit Nos. 708 & 709 on 7th Floor, East Ocean Centre, No. 98 Granville Road, Kowloon.<br><br>The property comprises 28/8,000 shares of and in Kowloon Lot No. 10601. | The property comprises two office units on 7th floor of a 17-storey (including 2 basements) commercial building completed in 1982.<br><br>The saleable area of the property is approximately 1,152 sq.ft. (107.02 sq.m.).<br><br>The property is held under Conditions of Sale No. UB11285 for a term of 75 years commencing from 9 January 1979 and renewed for a further term of 75 years.<br><br>The government rent payable for the lot is HK$1,000 per annum. | The property is subject to a tenancy expiring on 14 July 2007 at a monthly rent of HK$35,112 exclusive of rates and management fees. | HK$11,000,000 |

*Notes:*

1. The registered owner of the subject property is Weina Land Limited.

| | Property | Description and Tenure | Particular of Occupancy | Capital value in existing state as at 31 October 2006 |
|---|---|---|---|---|
| 5. | Unit No. 711 on 7th Floor, East Ocean Centre, No. 98 Granville Road, Kowloon.<br><br>The property comprises 14/8,000 shares of and in Kowloon Lot No. 10601. | The property comprises an office units on 7th floor of a 17-storey (including 2 basements) commercial building completed in 1982.<br><br>The saleable area of the property is approximately 576 sq.ft. (53.51 sq.m.).<br><br>The property is held under Conditions of Sale No. UB11285 for a term of 75 years commencing from 9 January 1979 and renewed for a further term of 75 years.<br><br>The government rent payable for the lot is HK$1,000 per annum. | The property is subject to a tenancy expiring on 14 April 2007 at a monthly rent of HK$16,720 exclusive of rates and management fees. | HK$5,450,000 |

*Notes:*

1. The registered owner of the subject property is Weina Land Limited.

2. The subject property is subject to a mortgage to secure general banking facilities in favour of the Hongkong Chinese Bank Limited.

| | Property | Description and Tenure | Particular of Occupancy | Capital value in existing state as at 31 October 2006 |
|---|---|---|---|---|
| 6. | Unit No. 713 on 7th Floor, East Ocean Centre, No. 98 Granville Road, Kowloon.<br><br>The property comprises 14/8,000 shares of and in Kowloon Lot No. 10601. | The property comprises an office units on 7th floor of a 17-storey (including 2 basements) commercial building completed in 1982.<br><br>The saleable area of the property is approximately 576 sq.ft. (53.51 sq.m.).<br><br>The property is held under Conditions of Sale No. UB11285 for a term of 75 years commencing from 9 January 1979 and renewed for a further term of 75 years.<br><br>The government rent payable for the lot is HK$1,000 per annum. | The property is vacant. | HK$5,450,000 |

*Notes:*

1. The registered owner of the subject property is Weina Land Limited.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (A) Directors' interests and short positions in the securities of the Company and its associated corporations

(i) As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (1) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (2) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (3) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Listing Rules, were as follows:

| Name of Directors | Nature of Interest | Total Number of Shares | Percentage of issued share capital (%) |
|---|---|---|---|
| Dr. Sze Kwan | Interest of a controlled corporation | 126,700,000* | 36.20% |

* *These shares are held through Otto Link Technology Limited, which is beneficially owned as to 80% by Dr. Sze and 20% by Mr. Siek Fui, both are executive directors of the Company.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Company's chief executive had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

(ii) As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 30 June 2006 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(iii) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group taken as a whole.

**(B) Substantial Shareholders of the Company**

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than a Director or chief executive of the Company) has an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the norminal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital:

| Name | Capacity and nature of interest | Number of Shares held/ interested | Number of underlying shares held/ interested | Approximate Shareholding |
|---|---|---|---|---|
| Otto Link Technology Limited | Beneficial owner | 126,700,000 | | 36.20% |
| Mr. Chak Joaquim Emilio Kin Man | Beneficial owner | 96,824,000 | | 27.66% |
| Weina BVI *(Note 1)* | Beneficial owner | | 350,000,000 | 100.00% |
| Mr. Tsim Wing Kong *(Note 1 & Note 2)* | Interest of a controlled corporation | | 460,000,000 | 131.43% |
| Weina Holdings (or its nominee) *(Note 2)* | Beneficial owner | | 110,000,000 | 31.43% |

*Note 1:* Weina BVI had entered into the Subscription and Option Agreement 26 May 2006 and through such Agreement, Weina BVI is interested in such number of Convertible Redeemable Preference Shares with the right to convert up to 350,000,000 Ordinary Shares. Mr. Tsim is indirectly and beneficially interested in 70% of the entire issued share capital of Weina BVI.

*Note 2:* Weina Holdings (or its nominee) had entered into the Agreement and through such Agreement, Weina Holdings (or its nominee) is interested in such number of Preference A Share with the right to convert up to 110,000,000 Ordinary Shares. Mr. Tsim is indirectly and beneficially interested in 70% of the entire issued share capital of Weina Holdings.

Save as disclosed above and so far as was known to any Directors, as at the Latest Practicable Date, there were no other persons who had interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the norminal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

## 3. COMPETING INTEREST

As at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business which competes or is likely to compete with the business of the Group.

## 4. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular, the Enlarged Group had entered into the (i) Subscription and Option Agreement dated 26 May 2006 (ii) the Shareholders' Agreement and Export Supply Agreement both dated 17 July 2006 and (iii) the Agreement, each of them being a contract not entered into in the ordinary course of business carried on by the Enlarged Group.

## 5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

## 6. LITIGATION

### (a) Litigation in relation to alleged guarantee

As at the Latest Practicable Date, the Group has been involved in certain litigations in the PRC with allegedly claims made by third parties of approximately RMB116,517,000 in aggregate in respect of certain guarantees allegedly given by the two wholly owned subsidiaries of the Group in the PRC. These litigations are set out below.

In early February and March 2006, the Company had been informed by its wholly owned subsidiaries in the PRC, Techwayson Industrial Limited ("TWS") and Hiwayson Technology Limited ("HWS") (renamed as 德維森科技(深圳)有限公司 Techwayson Technology (Shenzhen) Limited), that they have been served with the following writs of summons issued by the Tongling Intermediate People's Court and Shenzhen Intermediate People's Court. As the then and current Board was not aware of the underlying transactions concerning the two subsidiaries that were alleged in the writs of summons, the Company has been investigating the relevant facts.

1. Two China Construction Bank ("CCB") Writs were issued through the Tongling Intermediate People's Court (PRC) and the parties to the litigation are as follows:

   (a) CCB Tongling Branch, as plaintiff;
   (b) Goldwiz Tongling, as first defendant; and
   (c) TWS, as second defendant.

As a bank creditor, the plaintiff claims from Goldwiz Tongling the repayment of loans in the amount of, in one action, RMB18,000,000 with interests and, in another action, RMB23,500,000 with interests. TWS is alleged to be liable for such sum as a guarantor, aggregating to an amount of RMB41,500,000 with interests. It is alleged that TWS had given the guarantees in October 2004 and then again in October 2005.

2. The Tongling Economic Technical Development Zone (Group) Company（銅陵經濟技術開發區（集團）總公司）("Tongling Group") Writ was issued through the Tongling Intermediate People's Court (PRC) and the parties to the litigation are as follows:

(a) Tongling Group, as plaintiff;
(b) Goldwiz Tongling, as first defendant; and
(c) TWS, as second defendant.

As a creditor, the plaintiff claims from Goldwiz Tongling the payment in the amount of RMB16,340,000 as payment in advance made by the plaintiff for the first defendant. TWS is alleged to be liable for such sum as guarantor. The Repayment Agreement was purportedly entered into between the parties in September 2005.

In respect of the above two cases, Goldwiz Tongling and the plaintiffs are in the final stage of conclusion of settlement agreement.

3. The Bank Of China ("BOC") Tongling Branch Writ was issued through the Tongling Intermediate People's Court (PRC) and the parties to the litigation are as follows:

(a) BOC Tongling Branch, as plaintiff;
(b) Goldwiz Tongling, as first defendant;
(c) TWS, as second defendant; and
(d) HWS, as third defendant.

As a bank creditor, the plaintiff claims from Goldwiz Tongling the repayment of loans in the amount of RMB9,879,446.26 with interests and the payment of RMB11,719,990 in respect of issued acceptance bills. TWS and HWS are alleged to be liable for such sums as guarantors, aggregating to an amount of RMB21,599,436.26 with interests. It is alleged that each of HWS and TWS had given the guarantee in July 2005.

Goldwiz Tongling has subsequently made certain repayment but since this company and the plaintiff have not yet reached any settlement agreement and therefore the Company, being the alleged guarantor, has made a provision of guarantee for approximately RMB15 million and the Company will seek legal advice to demand for the said amount in due course.

4. The BOC Shenzhen Writ was issued through the Shenzhen Intermediate People's Court (PRC) and the parties to the litigation are as follows:

   (a) BOC Shenzhen Branch, as plaintiff;
   (b) Shenzhen Ji Hai Industrial Company (深圳市濟海實業有限公司) ("Ji Hai Company"), as first defendant;
   (c) TWS, as second defendant;
   (d) Goldwiz Real Estate (Shanghai) Co. Ltd. (科維置業(上海)有限公司), as third defendant; and
   (e) Goldwiz Tongling, as fourth defendant.

   As a bank creditor, the plaintiff claims from Ji Hai Company the repayment of loans and interest in the aggregate amount of approximately RMB60,692,650. TWS is alleged to be liable for such sum as guarantor. It is alleged that TWS had given the BOC Shenzhen guarantee in October 2003. Goldwiz Real Estate, as the third defendant, to the best of knowledge and belief of the Directors, is owned as to 10% by Goldwiz Holdings Limited and as to 90% by a PRC National who is an independent third party of the Company and its connected persons (as defined in the Listing Rules). To the best of the Directors' knowledge and information and belief and having made all reasonable enquiries, each of Ji Hai Company and its shareholders are not a member of the Group, and is a third party independent of the Company and its connected persons (as defined in the Listing Rules), save for the fact that Ji Hai Company has, at the relevant times, and remains to be, a customer of Goldwiz Tongling. The Group was advised that the case would be defendable in view of certain irregularities of the alleged guarantee.

**(b) Other Litigation**

As disclosed in the Company's announcements dated 3 August 2006 and 6 October 2006, the Group was served with a notice of arbitration proceeding by Shenzhen Arbitration Committee in respect of the Group's indebtedness of RMB100 million together with interest due to The Bank of China, Shenzhen branch, the PRC (the "Bank Creditor"). Both parties have agreed preliminarily to make an out-of-court settlement. The Bank Creditor will proceed with internal approval procedures for restructuring the short term loan to a long term loan subject to the pledge of the property-under-development in favour of the Bank Creditor as security for the long term loan. The property was charged by the plaintiffs of the litigations against the Company in respect of the alleged guarantees for the indebtedness of Goldwiz Tongling. The Group is endeavoring to satisfy the pre-condition of the proposed debt restructuring and will continue its negotiation with the Bank Creditor.

## 7. MATERIAL ADVERSE CHANGE

Saved as disclosed herein, the Directors are not aware of any material adverse change in he financial or trading position of the Group since 30 June 2006, being the date to which the latest published audited financial statements of the Group were made up.

## 8. PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

In accordance with Article 66 of the Company's Articles of Association, the following persons may demand that the vote in respect of any resolution put to the general meeting be taken on a poll:

(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) any 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

(iv) any 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.

A poll may be so demanded before or on the declaration of the result of the show of hands.

## 9. RE-ELECTION OF DIRECTOR

The particulars of the Director proposed to be re-elected at the EGM:

Mr. Poon Lai Yin Michael, aged 34. Mr. Poon has been an Independent Non-Executive Director of the Company since 29 November 2006. He is currently the Chief Financial Officer and the Company Secretary of Sonavox International Holdings Limited, a company listed on the GEM board of the Stock Exchange and is responsible for financial reporting, monitoring the operations of finance and accounting department and performing evaluation on all merger and acquisition for Sonavox Group. Mr. Poon is an associate member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He holds a bachelor degree in administrative studies with York University in Canada and a master degree in practicing accounting with Monash University in Australia. Before joining Sonavox Group, Mr. Poon worked for an international accounting firm and was responsible for providing business advisory and assurance services for some listed clients. He has over 10 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition.

Mr. Poon has not held any directorship with other listed company in the last three years. He has no relationship with any Director, senior management or substantial or controlling shareholders of the Company. He has not entered into any written service contract with the Company but has entered into a letter of appointment setting out the term of his appointment which shall be up to the annual general meeting of the Company to be held in year 2008 but will be subject to retirement by rotation and re-election at the annual general meeting the Company in accordance with the Articles of Association.

Mr. Poon is entitled to receive a director's fee of HK$120,000 per annum. Director's fee payable to Mr. Poon is recommended by the Remuneration Committee and determined by the Board with reference to his duties and responsibilities and as authorized by the shareholders of the Company. At the Latest Practicable Date, Mr. Poon does not have any interest in the shares of the Company which is required to be disclosed under Part XV of the SFO. Mr. Poon has not been involved in any of the matters which is discloseable pursuant to any of the requirements set out in Rule 13.51(2) of the Listing Rules and there is no other matter which needs to be brought to the attention of the shareholders of the Company.

**10. GENERAL**

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is at Suite 1304, 13/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

(c) The branch share registrar of the Company in Hong Kong is Union Registrars Limited, whose office is at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhard Road, Wanchai, Hong Kong.

(d) The qualified accountant of the Company is Ms. Fung Yin Wan. Ms Fung is the Financial Controller of the Group. She has more than ten years of experience in the fields of auditing, accounting, finance and taxation. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She is also an associate member of the Institute of Company Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

(e) The company secretary of the Company is Ms. Cheung Hiu Lan. She is an associate member of the Hong Kong Institute of Chartered Secretaries.

**11. LANGUAGE**

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

## 12. EXPERT AND CONSENT

(i) The following are the qualifications of the experts which have given their opinions or advices contained in this circular:

| Name | Qualifications |
|---|---|
| AMS | AMS Corporate Finance Limited, a corporation licensed under the SFO to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the Acquisition |
| Moores Rowland Mazars | Certified Public Accountants (Practising) |
| Peter K.H. Tong & Co. | Certified Public Accountants (Practising) |
| Vigers Appraisal and Consulting Ltd. | Professional property surveyors and valuers |

(ii) Each of AMS, Moores Rowland Mazars and Peter K.H. Tong & Co. does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(iii) Each of AMS, Moores Rowland Mazars and Peter K.H. Tong & Co. has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters and references to its name in the form and context in which they are included.

(iv) Each of AMS, Moores Rowland Mazars and Peter K.H. Tong & Co. does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired of by or leased to any member of the Group since 30 June 2006, the date to which the latest published audited financial statements of the Company were made up.

(v) The letter given by AMS set out in the section headed "Letter from AMS", the Accountants' Report on the Weina Land prepared by Peter K.H. Tong & Co. and report on the unaudited proforma financial information prepared by Moores Rowland Mazars as set out in Part I of Appendix III and Appendix IV(B) respectively, are given as of the date of this circular for incorporation herein.

## 13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal businesses hours at the principal place of business of the Company in Hong Kong at Suite 1304, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the Agreement;

(c) the Accountants' Report on Weina Land dated 11 December 2006, the text of which is set out in Part I. of Appendix III to this circular;

(d) the letter from Moores Rowland Mazars dated 11 December 2006 in respect of the unaudited pro forma financial information of the Group, the text of which is set out in Appendix IV(B) to this circular;

(e) the Valuation Report from Vigers Appraisal and Consulting Limited dated 1 December 2006, the text of which is set out in Appendix V to this circular;

(f) the letter from AMS dated 11 December 2006, the text of which is set out in the section headed "Letter from AMS"of this circular;

(g) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 18 of this circular;

(h) the written consents referred to in paragraph 12 in this Appendix; and

(i) the annual reports of the Company for the two financial years ended 30 June 2005 and 30 June 2006 respectively.

# THE QUAYPOINT CORPORATION LIMITED
# 紀 翰 集 團 有 限 公 司*

*(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 2330)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the "Meeting") of The Quaypoint Corporation Limited (the "Company") will be held at Central Plaza Executive Club, P Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 28 December 2006 at 10:00 a.m. to consider and, if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions:

### ORDINARY RESOLUTIONS

(1) "**THAT** the execution of the sale and purchase agreement dated 17 November 2006 (the "Agreement") entered into between Weina Holdings Limited, the Company and Mr. Tsim Wing Kong in relation to the acquisition of the entire issued shares of Weina Land Limited and the assignment of a shareholder's loan in the amount of HK$42,823,377.34 due from Weina Land Limited to Weina Holdings Limited (a copy of which has been produced to this meeting and initialed by the chairman of the Meeting for the purpose of identification) be and is hereby approved, ratified and confirmed and any of the directors of the Company be and is hereby authorized to take such actions as he or she thinks necessary or appropriate in connection with or for the purposes of the Agreement and the transactions contemplated thereunder; and

(2) "**THAT** Mr. Poon Lai Yin Michael, be and is hereby re-elected as Director of the Company."

By order of the Board
**The Quaypoint Corporation Limited**
**CHEUNG Hiu Lan**
*Secretary*

Hong Kong, 11 December 2006

* *for identification purposes only*

*Notes:*

1. As at the date of this notice, the Board of Directors of the Company comprises four Executive Directors, namely Dr. SZE Kwan, Mr. SIEK Fui, Ms. CHAN Siu Chu, Debby and Mr. LIU Ping, one Non-executive Director, namely, Mr. Gerard MCMAHON and three Independent Non-executive Directors, namely Mr. LAU Sai Chung and Mr. NG Kwok Chu, Winfield and Mr. POON Lai Yin, Michael.

2. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. A form of proxy for use at the Meeting is enclosed.

3. Where there are joint registered holders of any share, anyone of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders is present at the Meeting personally or by proxy, then one of the said persons so present whose name stands first on the register of members in respect of such share shall also be entitled to vote in respect thereof.

4. In order to be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with the principal place of business of the Company in Hong Kong at Suite 1304, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.