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If you have sold or transferred all your shares in Great Wall Cybertech Limited, you should at once hand this document and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This document is not an offer of, nor is it calculate to invite offers for, securities of Great Wall Cybertech Limited.

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**GREAT WALL CYBERTECH LIMITED**

**長城數碼廣播有限公司\***

**(Provisional Liquidators Appointed)**

**(Stock code: 689)**

*(incorporated in Bermuda with limited liability)*

**RESTRUCTURING PROPOSAL INVOLVING  
CAPITAL REORGANISATION, SUBSCRIPTION,  
CREDITORS' SCHEMES, OPEN OFFER, PLACINGS,  
GROUP REORGANISATION,  
AND  
APPLICATION FOR WHITEWASH WAIVER  
AND  
RENEWAL OF GENERAL MANDATES**

**Financial adviser to Great Wall Cybertech Limited**

**(Provisional Liquidators Appointed)**



**SOMERLEY LIMITED**

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

**TANRICH**

**Tanrich Capital Limited**

**ALTUS CAPITAL LIMITED**

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A letter from the Independent Board Committee is set out on page 37 of this document.

A letter jointly from Tanrich and Altus Capital, the Joint Independent Financial Advisers, containing their advice to the Independent Board Committee and the Independent Shareholders is set out on pages 38 to 56 of this document.

A notice convening the SGM to be held at 10:30 a.m. on 22nd June, 2006 at The Kimberley Hotel, 28 Kimberley Road, Tsimshatsui, Hong Kong is set out on pages 145 to 153 of this document. A form of proxy for use at the SGM is enclosed. Whether or not Shareholders intend to attend the meeting, they are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon as soon as possible to the Company's branch share registrar in Hong Kong, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the meeting or any adjourned meeting should they so desire.

\* For identification purpose only

29th May, 2006

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## DEFINITIONS

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

“Acceptance Date”	a day falling 14 days after the Posting Date (or such other date as the Underwriter may agree in writing with the Company and the Provisional Liquidators) as the latest time for acceptance of, and payment for, the Offer Shares
“Additional Shares”	352,750,000 new Adjusted Shares to be allotted and issued to the Investor, credited as fully paid, pursuant to the Subscription Agreement
“Adjusted Share(s)”	ordinary share(s) of the Company of HK\$0.01 each in the share capital of the Company upon the Stage I Capital Reorganisation becoming effective
“Altus Capital”	Altus Capital Limited, a licensed corporation under the SFO to conduct Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and one of the Joint Independent Financial Advisers
“Announcement”	the joint announcement dated 21st April, 2006 made by the Company and the Investor regarding the Restructuring Proposal
“Application Form(s)”	application form(s) for Offer Shares
“associates”	has the meaning ascribed thereto under the Listing Rules
“Bermuda Court”	the Supreme Court of Bermuda
“Board”	the board of Directors
“Business Day”	any days (other than Saturday) on which licensed bank in Hong Kong are open for business throughout their normal business hours
“BVI”	British Virgin Islands
“BVI Intermediary Holdco”	a company to be incorporated in the BVI, which shall become the holding company of Fortune Hand immediately after the Group Reorganisation

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## DEFINITIONS

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“Capital Reduction”	the proposed reduction of the nominal value of each issued Consolidated Share from HK\$1.00 to HK\$0.01 by canceling the paid-up capital to the extent of HK\$0.99 on each issued Consolidated Share
“Capital Reorganisation”	collectively the Stage I Capital Reorganisation and the Stage II Capital Reorganisation
“Capital Reserve Reduction”	the proposed cancellation of the entire amount standing to the credit of the Company’s share premium account, capital redemption reserve account and capital reserve account
“Companies Act”	the Companies Act 1981 of Bermuda as amended from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Great Wall Cybertech Limited (Provisional Liquidators appointed), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Restructuring Proposal
“Concert Parties”	parties acting in concert within the meaning of the Takeovers Code
“connected persons”	has the meaning ascribed thereto under the Listing Rules
“Consolidated Share(s)”	share(s) of HK\$1.00 each in the share capital of the Company upon the Share Consolidation becoming effective
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Costs Escrow Agreement”	the escrow and exclusivity agreement entered into, among others, between the Company, the Provisional Liquidators and the Investor on 4th June, 2004 and as supplemented by three supplemental agreements dated 29th October, 2004, 4th March, 2005 and 13th April, 2006 respectively
“Courts”	collectively the Hong Kong Court and the Bermuda Court

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## DEFINITIONS

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“Creditors’ Schemes”	the schemes of arrangement under section 99 of the Companies Act and under section 166 of the Companies Ordinance between the Company and the Schemes Creditors, brief details of which are set out in this document, with or subject to any modification thereof or addition thereto or condition approved or imposed by the Bermuda Court or Hong Kong Court, as the case may be, and agreed by the Investor
“Directors”	the directors of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Excess Application Form(s)”	form(s) of application for excess Offer Shares
“Fortune Hand”	Fortune Hand Industries Limited, a company incorporated in the BVI with limited liability and a direct subsidiary of the Company immediately before the Group Reorganisation
“Fortune Hand Group”	the group of companies headed by Fortune Hand as at the Latest Practicable Date comprising GW Infrastructure and Innovision, which is now held directly by the Company and shall be held directly by the BVI Intermediary Holdco immediately after the Group Reorganisation
“General Mandates”	the New Issue Mandate and the Repurchase Mandate
“Grand Vinco” or “Placing Agent” or “Underwriter”	Grand Vinco Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and being the Placing Agent of the Placings and the Underwriter to the Open Offer
“Group”	the Company and its subsidiaries prior to the Restructuring Proposal becoming effective
“Group Reorganisation”	the reorganisation of the Group as part of the Restructuring Proposal as described under the section headed “Group Reorganisation” in the Letter from the Board
“GW Infrastructure”	Great Wall Infrastructure Limited, a company incorporated in the BVI with limited liability and a direct subsidiary of Fortune Hand

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## DEFINITIONS

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“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Court”	the Court of First Instance of High Court of Hong Kong
“Indebtedness”	all indebtedness owed by the Company to the Schemes Creditors
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors including Mr. Lee Shue Shing, Mr. Wu Xiaoke and Mr. Poon Kwok Shin, Edmond
“Independent Shareholders”	Shareholders other than Vandor Profits Limited, which is beneficially wholly owned by Mr. Wu, and its associates
“Innovision”	Innovision Enterprises Limited, a company incorporated in Hong Kong with limited liability and a direct subsidiary of GW Infrastructure
“Investor”	Climax Associates Limited, a company incorporated in the BVI with limited liability and is owned as to 51% by a trust of which Mr. Wong and his family members are discretionary beneficiaries, as to 20% by Mr. Chu Kwok Chi Robert and as to 29% by Mr. Cheng Hairong
“Joint Independent Financial Advisers”	Tanrich and Altus Capital, the joint independent financial advisers to the Independent Board Committee and the Independent Shareholders in relation to the Restructuring Proposal and the Whitewash Waiver
“Latest Practicable Date”	26th May, 2006, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Mr. Wong”	Mr. Wong Chi Wing Joseph, the controlling shareholder of the Investor
“Mr. Wu”	Mr. Wu Shaozhang, an executive Director, who also beneficially owns Vandor Profits Limited which is a Shareholder holding approximately 7.66% of the existing issued share capital of the Company

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## DEFINITIONS

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“New Issue Mandate”	the proposed general mandate to be sought at the SGM to authorise the Directors to allot and issue new Adjusted Shares
“New Shares Placing”	the placing of the Placing Shares by the Placing Agent pursuant to the New Shares Placing Agreement
“New Shares Placing Agreement”	the placing agreement dated 13th April, 2006 entered into between the Company, the Provisional Liquidators, and the Placing Agent in respect of the New Shares Placing
“Non-Qualifying Shareholders”	Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date in respect of whom the Director, based on legal opinions provided by the legal advisers, consider it necessary or expedient not to offer the Open Offer to such Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Open Offer”	the issue of the Offer Shares on the basis of 9 Offer Shares for every 5 Adjusted Shares held on the Record Date
“Offer Shares”	145,372,626 Adjusted Shares to be issued under the Open Offer
“Placings”	collectively the New Shares Placing and the Sale Shares Placing
“Placing Agreements”	collectively the New Shares Placing Agreement and the Sale Shares Placing Agreement
“Placing Shares”	374,627,374 new Adjusted Shares to be placed by the Placing Agent on behalf of the Company under the New Shares Placing
“Petitioning Creditor”	means The Bank of East Asia, Limited
“Posting Date”	the day falling on the third Business Day after the Creditors’ Schemes have been sanctioned by the Courts and filed with the relevant registrars of companies in Hong Kong and Bermuda (or such other date as the Underwriter may agree with the Provisional Liquidators and the Company)

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## DEFINITIONS

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“PRC”	the People’s Republic of China
“Prospectus”	the prospectus containing details of the Open Offer to be issued by the Company
“Prospectus Documents”	the Prospectus, the Application Form(s) and the Excess Application Form(s)
“Provisional Liquidators”	Messrs. Derek K.Y. Lai and Joseph K.C. Lo of Deloitte Touche Tohmatsu in their capacity as joint and several provisional liquidators of the Company appointed by the Hong Kong Court
“Qualifying Shareholders”	Shareholders, other than the Non-Qualifying Shareholders, whose names appear on the register of members of the Company as at 4:00 p.m. on the Record Date
“Record Date”	the date by reference to which entitlements under the Open Offer will be determined
“Repurchase Mandate”	the proposed general mandate to be sought at the SGM to authorise the Directors to repurchase Adjusted Shares
“Restructured Group”	the group comprising principally the Company, BVI Intermediary Holdco, Fortune Hand, GW Infrastructure and Innovision upon Completion
“Restructuring Agreement”	the conditional agreement dated 13th April, 2006 entered into between the Company, the Provisional Liquidators and the Investor for the implementation of the Restructuring Proposal
“Restructuring Proposal”	the restructuring proposal of the Group under the Restructuring Agreement involving, among other things, the Capital Reorganisation, the Subscription, the Creditors’ Schemes, the Placings, the Open Offer and the Group Reorganisation
“Sale Shares”	156,500,000 new Adjusted Shares to be placed by the Placing Agent on behalf of the Investor under the Sale Shares Placing
“Sale Shares Placing”	the placing of the Sale Shares by the Placing Agent pursuant to the Sale Shares Placing Agreement
“Sale Shares Placing Agreement”	the placing agreement dated 13th April, 2006 entered into between the Investor, the Company and the Placing Agent in respect of the Sale Shares Placing

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## DEFINITIONS

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“Scheme Administration Costs”	the costs, charges, expenses and disbursements to be incurred on or after the date on which the Creditors’ Schemes become effective in connection with the administration and implementation of the Creditors’ Schemes including but not limited to the fees and remuneration of the Scheme Administrators and the adjudicator
“Scheme Administrators”	such appropriate person(s) to be appointed as the scheme administrators under the Creditors’ Schemes
“Scheme Bermuda Holdco”	a company to be incorporated in Bermuda with limited liability to hold the Scheme BVI Group Holdco and the Scheme HK Group Holdco upon the Creditors’ Schemes becoming effective
“Scheme BVI Group”	the group of companies headed by Scheme BVI Group Holdco
“Scheme BVI Group Holdco”	Great Wall Electronics Group Limited, a company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Company
“Schemes Creditors”	all creditors (excluding GW Infrastructure and Innovision which have made advances to the Company for the costs relating to the implementation of the Restructuring Proposal and the Shareholder Creditors to the extent of their unclaimed dividend against the Company) with a right to prove in the liquidation of the Company within the meaning of section 263 of the Companies Ordinance and section 234 of the Companies Act
“Scheme HK Group”	the group of companies headed by Scheme HK Group Holdco
“Scheme HK Group Holdco”	Great Wall Electronics Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Scheme Record Date”	a date to be fixed for the determination of entitlements of the Schemes Creditors under the Creditors’ Schemes
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong

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## DEFINITIONS

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“SGM”	the special general meeting of the Company to be held for the purpose of considering, and if thought fit, passing the relevant resolutions required for, among other things, the implementation of the Restructuring Proposal and the Whitewash Waiver
“Share(s)”	share(s) of HK\$0.01 each in the existing share capital of the Company before the implementation of the Stage I Capital Reorganisation
“Share Consolidation”	the proposed consolidation of every 100 Shares into one Consolidated Share
“Shareholder(s)”	holder(s) of the Share(s), the Consolidated Share(s) or the Adjusted Share(s), where appropriate
“Shareholder Creditors”	Shareholders who have claims against the Company for dividends declared by the Company
“Somerville”	Somerville Limited, a licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in the SFO
“Stage I Capital Reorganisation”	the proposed capital reorganisation of the Company involving the Share Consolidation and the Capital Reduction
“Stage II Capital Reorganisation”	the proposed capital reorganisation of the Company involving the Capital Reserve Reduction
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Investor and the issue and allotment of the Additional Shares to the Investor pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional agreement dated 13th April, 2006 entered into between the Investor, the Company and the Provisional Liquidators in relation to the Subscription
“Subscription Shares”	2,075,000,000 new Adjusted Shares to be allotted and issued to the Investor pursuant to the Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

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## DEFINITIONS

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“Tanrich”	Tanrich Capital Limited, a licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and one of the Joint Independent Financial Advisers
“Underwriting Agreement”	the underwriting agreement dated 13th April, 2006 entered into between the Company, the Provisional Liquidators and the Underwriter in relation to the Open Offer
“Underwritten Shares”	the 145,372,626 Offer Shares that are underwritten by the Underwriter
“Whitewash Waiver”	a waiver by the Executive pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code from the obligation of the Investor and its Concert Parties to make a mandatory general offer for all the Adjusted Shares not already owned or agreed to be acquired by them upon Completion
“HK\$”	Hong Kong dollars
“%”	per cent.

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## EXPECTED TIMETABLE

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*2006*

Latest time for lodging form of proxy for the SGM . . . . . 10:30 a.m. on Tuesday, 20th June

SGM . . . . . 10:30 a.m. on Thursday, 22nd June

Announcement of results of SGM . . . . . Friday, 23rd June

Further announcement(s) on the timetable for the implementation of the Restructuring Proposal including the dates for the Schemes Creditors' meeting, the hearing of the Courts to sanction the Creditors' Schemes, the Open Offer, despatch of the Prospectus Documents, Completion, the Capital Reorganisation, the trading arrangements and resumption of trading will be made by the Company as and when appropriate.

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LETTER FROM THE BOARD

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**GREAT WALL CYBERTECH LIMITED**

長城數碼廣播有限公司\*

(Provisional Liquidators Appointed)

(Stock Code: 689)

(incorporated in Bermuda with limited liability)

*Directors:*

Mr. Wu Shaozhang  
Mr. Wong Kwok Wing  
Mr. Tse On Kin  
Mr. Yuen Chung Yan, John  
Mr. Chen Weixiong

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Independent non-executive Directors:*

Mr. Lee Shue Shing  
Mr. Wu Xiaoke  
Mr. Poon Kwok Shin, Edmond

*Head office and principal  
place of business:*

26th Floor  
Wing On Centre  
111 Connaught Road  
Central  
Hong Kong

29th May, 2006

*To the Shareholders*

Dear Sir or Madam,

**RESTRUCTURING PROPOSAL INVOLVING  
CAPITAL REORGANISATION, SUBSCRIPTION,  
CREDITORS' SCHEMES, OPEN OFFER, PLACINGS,  
GROUP REORGANISATION,  
AND  
APPLICATION FOR WHITEWASH WAIVER  
AND  
RENEWAL OF GENERAL MANDATES**

**INTRODUCTION**

The Board jointly announced with the Investor on 21st April, 2006 the Restructuring Proposal which involves the Capital Reorganisation, the Subscription, the Creditors' Schemes, the Open Offer, the Placings and the Group Reorganisation. Completion of the Restructuring Proposal is subject to fulfillment of certain conditions including the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders.

\* For identification purpose only

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## LETTER FROM THE BOARD

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The purpose of this document is to provide you with further information on the Restructuring Proposal including the financial effects on the Company, the advice of the Independent Board Committee and the Joint Independent Financial Advisers on the Restructuring Proposal and the Whitewash Waiver and to set out the notice of the SGM. The Directors also propose to seek renewal of the General Mandates at the SGM. The Independent Board Committee was constituted by the three independent non-executive Directors including Mr. Lee Shue Shing, Mr. Wu Xiaoke and Mr. Poon Kwok Shin, Edmond to advise the Independent Shareholders on the Restructuring Proposal and the Whitewash Waiver. Tanrich and Altus Capital have been appointed as the Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Restructuring Proposal and the Whitewash Waiver.

### BACKGROUND

On 25th March, 2003, the Petitioning Creditor lodged a winding-up petition (the "Petition") against the Company as a result of it failing to meet statutory demands for settlement of a debt of approximately HK\$17.8 million owed by a subsidiary of the Company and for which the Company is the guarantor. Trading in the Shares was suspended from 24th March, 2003 and remained suspended as of the Latest Practicable Date. Upon the application of the Company by summons filed on 30th April, 2003, Mr. Derek K. Y. Lai and Mr. Joseph K. C. Lo of Deloitte Touche Tohmatsu were appointed as the Provisional Liquidators of the Company by the Hong Kong Court on 21st June, 2003 with powers to, among other things, preserve the assets of the Company, and to consider and review restructuring proposals and/or scheme of arrangement so as to avoid the Company being wound up.

Since their appointment, the Provisional Liquidators, through their financial adviser, have been searching for potential investors for the Company. The Provisional Liquidators received restructuring proposals from three potential investors (including the Investor) but two of the proposals were subsequently withdrawn, resulting in the restructuring proposal put forward by the Investor being the only proposal available to the Provisional Liquidators. Consequently, the Company, the Provisional Liquidators and the Investor entered into the Costs Escrow Agreement in June 2004 with a view to finalise the definitive documents for implementing a restructuring of the Company. The Company was placed in its third stage of the delisting procedure under Practice Note 17 of the Listing Rules on 22nd July, 2004 and was given a final six months' period up to January 2005 for the submission of a resumption proposal to the Stock Exchange. The Listing (Review) Committee of the Stock Exchange allowed the Company to proceed with the Restructuring Proposal subject to fulfillment of the following conditions:

- (i) publication of the Company's interim results for the six months ended 30th June, 2004 and final results for the year ended 31st December, 2004;
- (ii) despatch of the Company's annual/interim report for the following periods:
  - (a) for the nine months ended 31st December, 2002;
  - (b) for the six months ended 30th June, 2003;

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## LETTER FROM THE BOARD

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- (c) for the year ended 31st December, 2003;
- (d) for the six months ended 30th June, 2004; and
- (e) for the year ended 31st December, 2004;
- (iii) provision of a cash flow forecast for the year ending 31st December, 2006;
- (iv) provision of a formal profit forecast/estimate together with the relevant comfort letters for the year ending 31st December, 2005;
- (v) restoration of the public float as required by the Listing Rules;
- (vi) appointment of an additional independent non-executive director and the company secretary as required by the Listing Rules;
- (vii) properly addressing the outstanding complaints relating to a brand name of the Company;
- (viii) the investment of HK\$83 million in the Company by the Investor; and
- (ix) procuring a securities house in placing new shares to potential investors in order to raise additional capital of HK\$30 million and to achieve the public float required under the Listing Rules.

Conditions (i), (ii), (iii), (iv), (vi) and (vii) above have been fulfilled as at the Latest Practicable Date. The Company will ensure satisfaction of the outstanding conditions before application for resumption in trading of the securities of the Company.

### **REASONS FOR THE RESTRUCTURING PROPOSAL**

The Group suffered severe financial difficulties in 2002 and 2003 and lost control of a number of principal subsidiaries. For the nine months ended 31st December, 2002 and the year ended 31st December, 2003, the Group recorded audited losses attributable to Shareholders of approximately HK\$896.9 million and HK\$35.7 million respectively. The substantial losses attributable to the Shareholders in 2002 was mainly due to (i) provision of approximately HK\$578.7 million due from subsidiaries over which the Company had lost control and therefore whose accounts were not consolidated into that of the Company; and (ii) losses of approximately HK\$291.1 million resulting from the Company indemnifying certain banks and suppliers of its subsidiaries. Based on the audited financial statements for the year ended 31st December, 2003, the Group recorded audited net liabilities of approximately HK\$497.6 million as at 31st December, 2003.

Since the entering into of the Costs Escrow Agreement in June 2004, the Investor has made available working capital to the Group for its business reactivation. In addition, the Investor has helped to rebuild the sales team of the Group with experienced professionals who have good business networks in the consumer electronic products industry. The Group

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## LETTER FROM THE BOARD

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has been able to accelerate reactivation of its business in the sale of consumer electronic products including DVD players, home theatre systems and television sets from June 2004 onwards by subcontracting production to independent third parties.

Since then, significant progress has been made towards restoring the Group to an active and healthy state. Due to financial constraints, instead of manufacturing and selling consumer electronic products as in the past, the Group's current business model is to concentrate on product design, marketing and customers relationships. All production work is now subcontracted to independent third parties. The Group has successfully generated positive operating income and cashflow in the second half of 2004 as a result of a significant increase in sales. Turnover for the six-month period ended 31st December, 2004 increased by 3.8 times to HK\$109 million while net loss (after discounting one-off items) reduced by approximately 76% to HK\$2 million when compared with the same period in 2003. The financial results for the year ended 31st December, 2004 reflect the results of the Group under the new business model since June 2004. The Group continued to perform satisfactorily under the new business model in 2005. For the six-month period ended 30th June, 2005, the Group made a turnover of HK\$174 million and achieved a net profit after tax of HK\$3 million. Such results evidenced significant improvement when compared with a turnover of HK\$10 million and a net loss (after discounting one-off items) of HK\$2 million for the six-month period ended 30th June, 2004, and it was the first time the Group returned to a profitable position (after discounting one-off items) for an interim period since the financial difficulties experienced by the Group in 2002. Turnover for the six-month period ended 31 December 2005 increased by 2.1 times to approximately HK\$340 million and climbed up to a net profit of HK\$5 million from a net loss of HK\$2.5 million when compared with the same period in 2004. For the year ended 31st December, 2005, the Group achieved a turnover of HK\$514 million and a net profit after tax of HK\$8 million, compared to turnover of HK\$120 million and a net loss (after discounting one-off items) of HK\$5 million respectively for the year of 2004.

The primary objectives of the Restructuring Proposal are (i) to inject new capital into the Company for settlement, through the Creditors' Schemes, of the Indebtedness which, for reference purpose, based on the books and records available to the Company, amounted to approximately HK\$351.7 million as at 31st December, 2005, and (ii) to strengthen the Restructured Group's financial position. Upon Completion, it is expected that the Company will emerge from provisional liquidation.

If the Restructuring Proposal is not successfully implemented, in view of the fact that the third stage of the delisting procedures under Practice Note 17 of the Listing Rules expired in January 2005, the Provisional Liquidators believe that it is unlikely that there would be another viable alternative restructuring proposal available to the Group. In this case, there is a high possibility that the Company would be wound up.

Trading in the securities of the Company will be resumed subject to fulfillment of conditions imposed by the Listing (Review) Committee of the Stock Exchange and completion of the Restructuring Proposal. Completion is subject to fulfilment of certain conditions including, among other things, the passing of the relevant resolutions at the SGM for the implementation of the Restructuring Proposal, the obtaining of the Whitewash

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## LETTER FROM THE BOARD

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Waiver, the Creditors' Schemes having been approved by the Schemes Creditors and sanctioned by the Courts, the withdrawal of the Petition and the restoration of public float of the Company as required under the Listing Rules.

### THE RESTRUCTURING PROPOSAL

On 13th April, 2006, the Company, the Investor and the Provisional Liquidators entered into the Restructuring Agreement in respect of the Restructuring Proposal, which involves, among other things, (i) the Capital Reorganisation, (ii) the Subscription, (iii) the Creditors' Schemes, (iv) the Open Offer, (v) the Placings, and (vi) the Group Reorganisation.

#### I. CAPITAL REORGANISATION

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$250,000,000 divided into 25,000,000,000 Shares, of which 8,076,257,020 Shares were in issue and fully paid. Under the Capital Reorganisation, the share capital of the Company will be restructured in the following manner:

##### Stage I Capital Reorganisation

To facilitate the issue of new shares by the Company under the Restructuring Proposal, the Company will, subject to the fulfillment of the conditions precedent, implement the Stage I Capital Reorganisation:

(i) Share Consolidation

Every 100 issued Shares of HK\$0.01 each will be consolidated into one Consolidated Share of HK\$1.00 each. Fractional Consolidated Shares will not be issued to the Shareholders but will be aggregated and sold for the benefit of the Company.

(ii) Capital Reduction

Immediately upon the Share Consolidation becoming effective, the Company will carry out a reduction of the nominal value of each Consolidated Share from HK\$1.00 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.99 on each issued Consolidated Share. The Adjusted Shares will have par value of HK\$0.01 each upon the Capital Reduction becoming effective.

##### *Conditions of Stage I Capital Reorganisation*

Stage I Capital Reorganisation is conditional upon:

- (i) the passing of the necessary resolution(s) by the Shareholders to approve the Stage I Capital Reorganisation at the SGM;
- (ii) compliance with the relevant legal procedures and requirements under Bermuda laws to effect the Stage I Capital Reorganisation;

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## LETTER FROM THE BOARD

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- (iii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Adjusted Shares; and
- (iv) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Stage I Capital Reorganisation.

### *Effect of Stage I Capital Reorganisation*

Upon the Stage I Capital Reorganisation becoming effective and without taking into account the new Adjusted Shares to be issued pursuant to the Restructuring Proposal, the issued share capital of the Company will be approximately HK\$808,000, represented by 80,762,570 Adjusted Shares of HK\$0.01 each.

Based on the audited accounts of the Company as at 31st December, 2005 and assuming that no further Shares will be issued or repurchased after the Latest Practicable Date and up to the effective date of the Stage I Capital Reorganisation, credits with an aggregate amount of approximately HK\$80.0 million will arise in the books of the Company as a result of the Capital Reduction, which will be credited to the contributed surplus account of the Company. Based on the Company's contributed surplus of approximately HK\$145.4 million as at 31st December, 2005, the contributed surplus will be increased to approximately HK\$225.4 million upon the Stage I Capital Reorganisation becoming effective. The Board proposes to apply approximately HK\$3.5 million of the contributed surplus for the issue of the Additional Shares pursuant to the Subscription Agreement, leaving a balance of approximately HK\$221.9 million.

The Adjusted Shares will rank *pari passu* in all respects with each other. Other than the expenses to be incurred, implementation of the Stage I Capital Reorganisation will not alter the underlying assets, business operations, management or financial position of the Company or the relative interests or rights of the Shareholders (save that fractional Consolidated Shares will not be issued to the Shareholders).

### **Stage II Capital Reorganisation**

Stage II Capital Reorganisation will, subject to fulfillment of the conditions precedent, be implemented upon completion of the Restructuring Agreement.

### *Capital Reserve Reduction*

The Company will carry out a cancellation of the entire amount standing to the credit of its (i) share premium account (including the existing share premium which amounted to approximately HK\$792.0 million as at 31st December, 2005 based on the Company's audited accounts for the year ended 31st December, 2005 and the share premium which will arise from the issue of the Subscription Shares, the Offer Shares and the Placing Shares which will amount to approximately HK\$88.3 million); (ii) capital redemption reserve account, and (iii) capital reserve account. Based on the

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## LETTER FROM THE BOARD

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audited accounts of the Company for the year ended 31st December, 2005, the Company had capital redemption reserve of approximately HK\$9.9 million and capital reserve of approximately HK\$71.4 million as at 31st December, 2005.

### *Conditions of Stage II Capital Reorganisation*

Stage II Capital Reorganisation is conditional upon:

- (i) the passing of the necessary resolution(s) by the Shareholders to approve the Stage II Capital Reorganisation at the SGM;
- (ii) completion of the Restructuring Proposal;
- (iii) compliance with the relevant legal procedures and requirements under Bermuda laws to effect the Stage II Capital Reorganisation; and
- (iv) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Stage II Capital Reorganisation.

### *Effect of Stage II Capital Reorganisation*

Upon the Stage II Capital Reorganisation becoming effective, credits with an aggregate amount of approximately HK\$961.6 million will arise in the books of the Company as a result of the Capital Reserve Reduction, which amount will be credited to the contributed surplus account of the Company. Based on the Company's contributed surplus of approximately HK\$145.4 million as at 31st December, 2005 and the amounts of credits that would be resulted from the Stage I Capital Reorganisation after applying approximately HK\$3.5 million for the issue of the Additional Shares, the balance will be increased to approximately HK\$1,183.5 million upon the Stage II Capital Reorganisation becoming effective. The Board proposes to apply such amount of contributed surplus to set off against the entire accumulated losses of the Company after deducting the estimated gain arising from the settlement and discharge in full of the Indebtedness, which for reference purpose amounted to approximately HK\$1,122.3 million as at 31st December, 2005, leaving a balance standing to the credit of the contributed surplus account of approximately HK\$61.2 million based on the Company's accounts as at 31st December, 2005. The balance of the contributed surplus may be applied in such manner as permitted by the laws of Bermuda and the Bye-laws of the Company.

## II. SUBSCRIPTION

### **Subscription Agreement**

The Investor agreed to subscribe for 2,075,000,000 Subscription Shares at a subscription price of HK\$0.04 per Subscription Share. 352,750,000 Additional Shares will be issued and allotted to the Investor, credited as fully paid, on the basis of 17 Additional Shares for every 100 Subscription Shares subscribed by the Investor. The

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## LETTER FROM THE BOARD

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Additional Shares will be issued by the Company to the Investor upon completion of the Subscription. The terms of the Subscription Agreement were determined after arm's length negotiation between the Company, the Provisional Liquidators and the Investor.

The total of 2,427,750,000 Adjusted Shares (comprising 2,075,000,000 Subscription Shares and 352,750,000 Additional Shares) to be issued to the Investor pursuant to the Subscription Agreement represents approximately 30.1 times the issued Adjusted Shares immediately upon the Stage I Capital Reorganisation becoming effective, and approximately 80.2% of the enlarged issued share capital of the Company upon Completion.

### *Subscription price*

The subscription price of HK\$0.04 per Subscription Share was determined after taking into consideration various factors including the audited losses attributable to Shareholders incurred by the Group for the nine months ended 31st December, 2002 and the two years ended 31st December 2003 and 2004 of approximately HK\$896.9 million, HK\$35.7 million and HK\$4.8 million (before the gain on deconsolidation of subsidiaries) respectively and the audited net liabilities position of the Group of approximately HK\$302.6 million as at 31st December, 2004. The total consideration for the Subscription of HK\$83 million will be satisfied by the Investor in cash upon Completion. Based on the consideration for the Subscription of HK\$83 million and a total of 2,427,750,000 Adjusted Shares to be issued pursuant to the Subscription Agreement, the effective subscription price to the Investor will be HK\$0.0341 per Adjusted Share. The price of HK\$0.0341 per Adjusted Share represents a discount of approximately 97% to the theoretical closing price of HK\$1.00 per Adjusted Share based on the closing price of HK\$0.01 per Share on 21st March, 2003, being the last trading day immediately before suspension in trading of the Shares on 24th March, 2003, and adjusted for the Share Consolidation.

The effective subscription price of HK\$0.0341 per Adjusted Share is significantly lower than the offer price and placing price of HK\$0.06 per Adjusted Share under the Open Offer and the New Shares Placing. This is a commercial term agreed between the Company and the Investor in recognition of the Investor's contribution in terms of financial and management support to the Group since the signing of the Costs Escrow Agreement in June 2004.

### *Ranking of the Subscription Shares and the Additional Shares*

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

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## LETTER FROM THE BOARD

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### III. CREDITORS' SCHEMES

Based on the books and records available to the Company, the Indebtedness owed by the Company to the Schemes Creditors as at 31st December, 2005 amounted to approximately HK\$351.7 million, which was mainly accrued before the Investor put forward the Restructuring Proposal to the Provisional Liquidators. The Indebtedness as at 31st December, 2005 comprised direct unsecured liabilities of the Company of approximately HK\$8.8 million and liabilities of its subsidiaries of approximately HK\$343.0 million for which the Company is the guarantor. Out of the aforesaid liabilities of HK\$343.0 million, approximately HK\$167.0 million are secured by assets pledged by the Company's subsidiaries whilst the remaining HK\$176.0 million are unsecured.

The Creditors' Schemes, if implemented, will provide for settlement and discharge in full of the Indebtedness including interest accrued up to the date on which the Creditors' Schemes become effective. The indebtedness figures shown above are for indicative purposes only. The claims made by the Schemes Creditors will be subject to formal adjudication by the Scheme Administrators pursuant to the Creditors' Schemes.

#### Terms

An amount of HK\$21.5 million out of the Subscription proceeds and the entire interests in the Scheme HK Group and Scheme BVI Group (comprising members of the Group which will be excluded from the Restructured Group, but some of which are companies either in the process of winding up and/or over which the Company has lost control, as described under the section headed "Group Reorganisation" below), will be transferred to the Scheme Administrators for administration. At the formal adjudication stage, if the creditors with security provided by the subsidiaries or associate of the Company are capable of collecting their respective collateralised property or assets, the value of the relevant property or assets (which is estimated by the Company to be approximately HK\$23.8 million based on the records and the books of the Company) will be appraised by independent professional valuers and the appraised values, upon agreement of the creditors, will be deducted from the amounts of the claims of the relevant creditors. Any indebtedness owed to the relevant creditors in excess of the agreed appraised value of the security will be treated as unsecured debts. If the creditors with security provided by the subsidiaries or associate of the Company are not capable of collecting their collateralised property or assets, the whole amount of their indebtedness will be treated as unsecured debts. The total unsecured debts (including the aforesaid excess) under the Creditors' Schemes as at the Scheme Record Date will be discharged in full by way of a cash payment on a pro-rata basis (subject to preferential claims) out of the aforesaid amount of HK\$21.5 million (subject to deduction of the related petition costs and the Scheme Administration Costs up to HK\$1 million in aggregate) (the "Distribution Proceeds"). In addition, if there is any amount raised from the realisation of assets of the Scheme HK Group and Scheme BVI Group by the Scheme Administrators (the "Assets Realisation"), such amount will also be distributed to the Scheme Creditors as if it was part of the Distribution Proceeds.

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## LETTER FROM THE BOARD

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### Effects of the Creditors' Schemes

The Distribution Proceeds and, if any, amounts raised from the Assets Realisation will be used to repay the Schemes Creditors for the discharge and settlement in full of the Indebtedness, which will have the effect, before taking into account other features of the Restructuring Proposal, of reducing the indebtedness of the Company from approximately HK\$353.0 million as at 31st December, 2005 to approximately HK\$1.3 million (which represents amounts owed by the Company to two of its wholly-owned subsidiaries which will remain in the Restructured Group and the Shareholders Creditors to the extent of their unclaimed dividend against the Company), thereby enhancing the net assets of the Restructured Group. The actual amount of the Indebtedness to be discharged pursuant to the Creditors' Schemes will be subject to formal adjudication by the Scheme Administrators.

### Conditions of the Creditors' Schemes

The Creditors' Schemes are to become effective upon:

- (i) approval by a majority in number representing three-quarters in value of the creditors who, being entitled, attend and vote in person or by proxy at the relevant meetings of the Creditors' Schemes;
- (ii) all necessary consents or approvals of all relevant government or regulatory authorities in relation to the Creditors' Schemes being obtained (including but not limited to the order of the Bermuda Court to sanction the scheme subject to approval referred to in (i) above);
- (iii) the conditions precedent to the Restructuring Agreement have been satisfied or, where applicable, waived or amended before the Creditors' Schemes become effective (save as to the condition requiring the Creditors' Schemes to have become unconditional); and
- (vi) the relevant Court orders have been filed with the registrar of companies in Hong Kong and Bermuda respectively.

## IV. OPEN OFFER

Pursuant to the Restructuring Proposal, as part of the measures to restore the 25% public float as required under the Listing Rules and to enable the existing Shareholders to participate in the Restructuring Proposal, the Investor, as agreed by the Company, proposes that the Company will carry out the Open Offer as follows:

### Issue statistics

Basis of Open Offer: 9 Offer Shares for every 5 Adjusted Shares held by the Qualifying Shareholders on the Record Date

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## LETTER FROM THE BOARD

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Number of Adjusted Shares                      80,762,570 Adjusted Shares  
expected to be in issue  
immediately upon the Stage I  
Capital Reorganisation  
becoming effective:

Number of Offer Shares:                      145,372,626 Offer Shares

Offer price:                                      HK\$0.06 per Offer Share

The terms of the Open Offer have been determined after arm's length negotiation between the Company, the Provisional Liquidators, the Investor and the Underwriter.

The 145,372,626 Offer Shares represent 1.8 times the issued Adjusted Shares immediately upon the Stage I Capital Reorganisation becoming effective, and approximately 4.8% of the enlarged issued share capital of the Company upon Completion. Details of the changes in the shareholding structure of the Company are set out under the section headed "Changes in Shareholding" below.

The price of HK\$0.06 per Subscription Share represents a discount of 94% to the theoretical closing price of HK\$1.00 per Adjusted Share based on the closing price of HK\$0.01 per Share on 21st March, 2003, being the last trading day immediately before suspension in trading of the Shares on 24th March, 2003, and adjusted for the Share Consolidation.

### **Qualifying Shareholders**

The Company will send the Application Forms and Excess Application Forms to the Qualifying Shareholders only. To qualify for the Open Offer, Shareholders must be registered as a member of the Company on the Record Date. Shareholders having an address in Hong Kong on the register of members of the Company at the close of business on the Record Date will qualify for the Open Offer. Shareholders having addresses outside Hong Kong on the register of members of the Company at the close of business on the Record Date will qualify for the Open Offer only if the Board, after making relevant enquiry as required under the Listing Rules, considers that the offer to these Shareholders would not contravene any legal restriction under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place. Further information in this regard will be included in the Prospectus.

As the Subscription Shares, Additional Shares and Placing Shares will, subject to fulfillment of the conditions precedent, only be issued upon Completion which will take place after the Record Date, holders of such shares will not rank for the Open Offer.

### **Application for excess Offer Shares**

Qualifying Shareholders may apply for any Offer Shares provisionally allotted but not accepted by Qualifying Shareholders. Application can be made by completing the Excess Application Forms and lodging the same with a remittance for the aggregate subscription price payable for the relevant excess Offer Shares. The Directors will

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## LETTER FROM THE BOARD

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allocate the excess Offer Shares at their discretion on a fair and equitable basis and will give preference to topping up odd lots to whole board lots. Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders whose Shares are registered in the names of nominee companies should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Offer Shares will not be extended to beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

### **Status of the Offer Shares**

When fully paid, issued and allotted, the Offer Shares will rank *pari passu* in all respects with the then issued Adjusted Shares. Holders of the fully paid Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of issue and allotment of the Offer Shares.

### **Conditions of the Open Offer**

Completion of the Open Offer is conditional upon, among others, fulfilment of the following conditions:

- (i) the passing of the resolutions by the Shareholders (with those interested Shareholder(s) to abstain from voting) to approve the Stage I Capital Reorganisation, the Group Reorganisation, the Subscription, the New Shares Placing and the Open Offer at the SGM;
- (ii) the passing of the resolution by way of poll by the Independent Shareholders to approve the Whitewash Waiver;
- (iii) the granting by the Executive of the Whitewash Waiver to the Investor;
- (iv) the granting by the Listing Committee of the Stock Exchange the listing of, and permission to deal in, the Offer Shares;
- (v) the Stage I Capital Reorganisation becoming effective;
- (vi) the Restructuring Agreement becoming unconditional in all respects (save as the condition requiring the Open Offer becoming unconditional and/or the obligations of the Underwriter under the Underwriting Agreement not being terminated);
- (vii) compliance with the requirements under the applicable laws and regulations of Hong Kong and Bermuda;

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## LETTER FROM THE BOARD

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- (viii) the clearance in principle by the Stock Exchange of an announcement to be issued by the Company (in the form approved by the Stock Exchange and (if applicable) the SFC) confirming the fulfilment of all conditions precedent to completion of the Restructuring Agreement and the date on which resumption of trading in the securities of the Company will occur which shall not be later than two Business Days after the publication of such announcement; and
- (ix) the obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter in accordance with its terms.

None of the above conditions is waivable by the Company or the Underwriter. In respect of condition (i) above, as the Open Offer will increase the existing issued share capital of the Company by more than 50% and the Company does not have any controlling shareholder, accordingly the Directors and the chief executive of the Company and their respective associates will abstain from voting in favour of the relevant resolution at the SGM pursuant to the Listing Rules. Mr. Wu, an executive Director, through Vandor Profits Limited, is interested in approximately 7.66% of the issued share capital of the Company and is therefore required to abstain from voting in favour of the relevant resolution.

In the event that the above conditions have not been satisfied on or before 4:00 p.m. on 31st August, 2006 (or such other date as may be agreed between the Underwriter, the Provisional Liquidators, the Investor and the Company), all liabilities of the parties to the Underwriting Agreement shall cease and determine and no party shall have any claim against the other party save for any antecedent breach thereof. In such event, the Restructuring Proposal will not proceed.

### **Underwriting Agreement**

Date:	13th April, 2006
Underwriter:	Grand Vinco
Number of Offer Shares underwritten:	145,372,626 Offer Shares
Commission:	2.5% of the aggregate Offer Price for the Underwritten Shares

To the best knowledge of the Directors and the Provisional Liquidators after making all reasonable enquiries, the Underwriter and its controlling shareholder are third parties independent of the Company and its connected persons.

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## LETTER FROM THE BOARD

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### Termination of the Underwriting Agreement

The Underwriter may terminate its obligations under the Underwriting Agreement by notice in writing issued to the Company at any time prior to 4:00 p.m. on the third Business Day after the Acceptance Date if there occurs:

- (i) any new law or regulation or any change (whether or not forming part of a series of changes) in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature by any court or other competent authority of any jurisdiction relevant to the Group shall have been introduced or effected; or
- (ii) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national and international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets shall have been occurred; or
- (iii) any adverse change in the business or in the financial position or the prospects of the Group as a whole; or
- (iv) any event, or series of events, beyond the control of the Underwriter (including without limitation, any act of God, acts of government, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic or threatened epidemic (including but not limited to severe acute respiratory syndrome, bird flu and other viruses of an epidemic nature), terrorism, strike or lock-out shall have occurred, happened or come into effect; or
- (v) any adverse change in market conditions (including without limitation, a change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or restriction of trading in securities and a change in currency conditions for the purpose of this clause includes a change in the system which the value of Hong Kong currency is pegged with that of the currency of the United States of America) shall have been occurred; or
- (vi) any event, or series of events which in the opinion of the Underwriter has or is likely to have the effect of making any part of the Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of the Open Offer; or
- (vii) any adverse change or development in the conditions of Hong Kong and the PRC or international equity securities markets; or

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## LETTER FROM THE BOARD

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- (viii) the imposition of economic sanctions, in whatever form, directly and indirectly, by the United States, the European Union (or any member thereof) or any other country or organisation in Hong Kong, the PRC or any other jurisdiction relevant to the Group; or
- (ix) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in the PRC, Hong Kong or any jurisdiction relevant to the Group;

which, in the reasonable opinion of the Underwriter:

- (1) is or will or is likely to be adverse to the business, financial or other condition or prospects of the Group or, in the case of paragraph (ix) above, to the prospective shareholders as a whole or generally in their capacity as such; or
- (2) has or will or is likely to have an adverse effect on the success of the Open Offer or the level of the Offer Shares being accepted or distribution of the Offer Shares; or
- (3) makes it inadvisable or inexpedient to proceed with the underwriting or the delivery of the Offer Shares on the terms and in the manner contemplated by the Underwriting Agreement or other relevant documents;

then the Underwriter may in its absolute discretion, upon giving notice in writing to the Company terminate the Underwriting Agreement with immediate effect. Should this occur, the Underwriting Agreement shall cease to have effect and none of the parties to the Underwriting Agreement shall have any rights or claims to the other parties by reason thereof.

The Underwriter shall be entitled by notice in writing to the Company, served prior to 4:00 p.m. on the third Business Day after the Acceptance Date to rescind the Underwriting Agreement if:

- (i) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have adverse effect on its financial position as a whole; or
- (ii) the Underwriter shall either receive notification pursuant to the terms of the Underwriting Agreement or otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent an adverse change in the financial position of the Group taken as a whole or is otherwise likely to have a prejudicial effect on the Open Offer; or

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## LETTER FROM THE BOARD

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- (iii) the Company shall, after any matter or event referred to in the Underwriting Agreement has occurred or come to the Underwriter's attention, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

**If the Underwriter terminates or rescinds the Underwriting Agreement, the Open Offer will not proceed. In such event, the Restructuring Proposal will not proceed.**

### V. PLACINGS

Pursuant to the Restructuring Proposal and as additional measures to restore the 25% public float as required under the Listing Rules, (i) the Company, the Provisional Liquidators and Grand Vinco as the Placing Agent entered into the New Shares Placing Agreement on 13th April, 2006 pursuant to which the Placing Agent agreed to place up to 374,627,374 Placing Shares at no less than HK\$0.06 each, and (ii) the Investor, the Company and the Placing Agent entered into the Sale Shares Placing Agreement on 13th April, 2006 pursuant to which the Placing Agent agreed to place up to 156,500,000 Sale Shares at no less than HK\$0.06 each. Pursuant to the above agreements, the Placing Agent will procure for each of the New Shares Placing and Sale Shares Placing, on a best effort basis, that no less than six independent investors who are third parties independent of the Company and its connected persons and the Investor to subscribe or purchase the Placing Shares and Sale Shares. It is not expected that a new substantial Shareholder will be introduced as a result of the Placings. The Placing Agent will receive a placing commission of 2.5% on the gross proceeds of each of the Placings. The terms of the Placing Agreements including the placing price were determined after arm's length negotiation between the parties involved.

The 374,627,374 Placing Shares to be issued under the New Shares Placing represent approximately 4.64 times the issued Adjusted Shares immediately upon the Stage I Capital Reorganisation becoming effective and approximately 12.4% of the enlarged issued share capital of the Company upon Completion. The 156,500,000 Sale Shares under the Sale Shares Placing represent approximately 1.9 times the issued Adjusted Shares immediately upon the Stage I Capital Reorganisation becoming effective and approximately 5.17% of the enlarged issued share capital of the Company upon Completion. Details of the changes in shareholding structure of the Company are set out under the section headed "Changes in Shareholding" below.

#### **Ranking of the Placing Shares**

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

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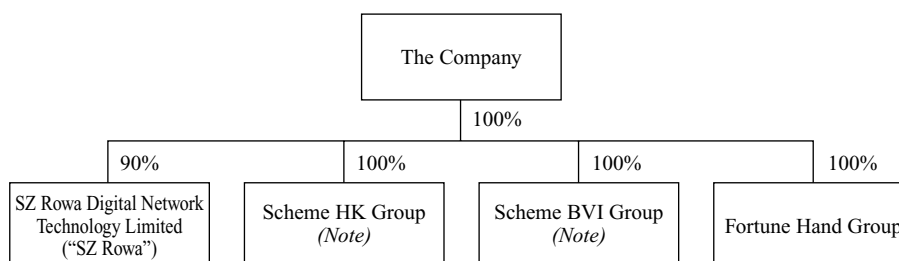
### VI. GROUP REORGANISATION

Pursuant to the terms of the Restructuring Agreement, the Group Reorganisation will be implemented to facilitate implementation of the Creditors' Schemes as follows:

- (i) the entire interest in Fortune Hand will be transferred to BVI Intermediary Holdco in consideration of the allotment and issue of one share in BVI Intermediary Holdco of US\$1 each to the Company so that after such transfer the Company becomes the sole shareholder of BVI Intermediary Holdco and indirectly holds the Fortune Hand Group;
- (ii) the entire interests in Scheme HK Group Holdco and Scheme BVI Group Holdco will be transferred to the Scheme Bermuda Holdco in consideration of HK\$1 for each of the above transfers; and
- (iii) the entire interests in Scheme Bermuda Holdco will be transferred to the Scheme Administrators or their nominee. The Scheme Bermuda Holdco will be held by the Scheme Administrators upon sanction of the Creditors' Schemes by the Courts.

Based on the records available to the Company, the simplified structure of the existing Group and the Restructured Group immediately after completion of the Group Reorganisation are as follows:

*Structure of the existing Group before completion of the Group Reorganisation:*



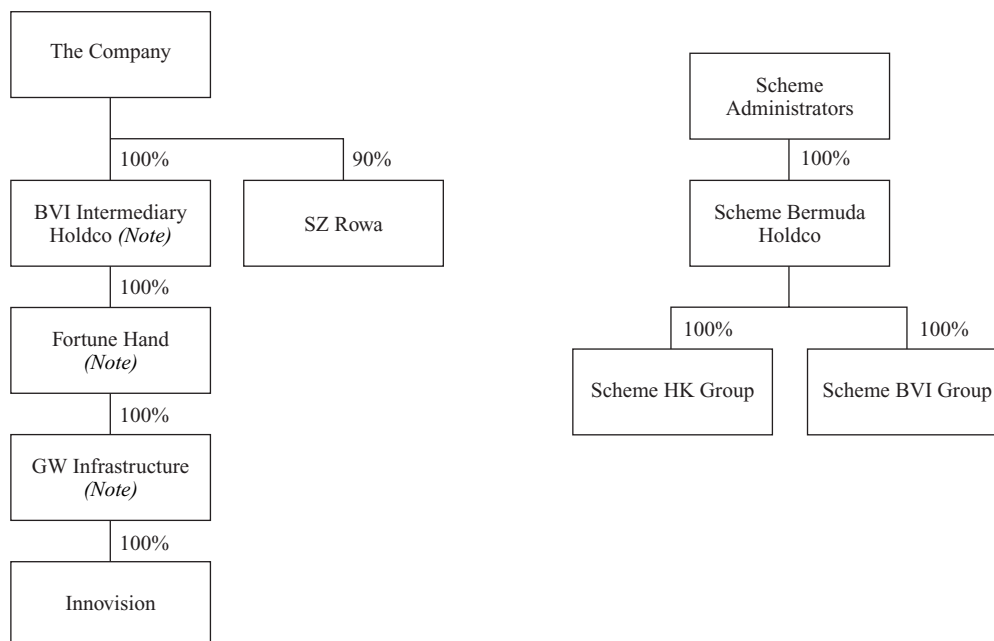
*Note:* Some members of the Scheme HK Group and the Scheme BVI Group are companies either in the process of winding up and/or over which the Company has lost control.

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## LETTER FROM THE BOARD

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*Structure of the Restructured Group immediately after completion of the Group Reorganisation:*



*Note:* The principal businesses of BVI Intermediary Holdco, Fortune Hand and GW Infrastructure are investment holding.

SZ Rowa, a 90%-owned subsidiary of the Company, is a Sino-foreign joint venture incorporated in the PRC in 2000. It was set up for the purpose of engaging in Internet software development. SZ Rowa did not commence any operations due to the downturn of Internet related business worldwide at the time and it has remained dormant since then. SZ Rowa will not be transferred to the Scheme Administrators as its business license, which will be required for share transfer registration, was revoked by the PRC authority in 2005. Accordingly, it will remain a subsidiary of the Group immediately after completion of the Group Reorganisation. The Board intends to wind up SZ Rowa.

### USE OF PROCEEDS

The aggregate net proceeds from the Subscription, the Open Offer and the New Shares Placing of approximately HK\$105 million will be applied by the Company as follows:

- HK\$21.5 million for the settlement of the Indebtedness pursuant to the Creditors' Schemes, subject to a maximum deduction of approximately HK\$1 million for payment for the Scheme Administration Costs and related petition costs;
- where suitable manufacturing facility is identified, up to HK\$20 million for such investment; and
- the remaining balance of HK\$63.5 million will be retained for the present as working capital for the Restructured Group. However, the Directors will continue to seek new business opportunities to improve the Restructured Group's

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## LETTER FROM THE BOARD

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profitability and prospects and may consider using a portion of the balance to diversify the Restructured Group's business should appropriate investment opportunities arise.

### CONDITIONS PRECEDENT TO THE RESTRUCTURING AGREEMENT

Completion of the Restructuring Agreement is subject to satisfaction or waiver (as the case may be) of the following conditions precedent:

1. the passing of the resolutions by the Shareholders (with those interested Shareholder(s) abstain from voting) at the SGM to approve, inter alia:
  - a. the Capital Reorganisation;
  - b. the Underwriting Agreement and the implementation of the Open Offer;
  - c. the Subscription Agreement and the implementation thereof; and
  - d. the New Shares Placing Agreement and the implementation thereof.
2. the passing of the resolution by the Independent Shareholders by way of poll to approve the Whitewash Waiver;
3. the granting by the Executive of the Whitewash Waiver to the Investor;
4. all relevant legal procedures and requirements under Bermuda law to effect the Stage I Capital Reorganisation having been complied with;
5. (where required) the Bermuda Monetary Authority granting its permission to the issue and allotment of the Adjusted Shares to be issued pursuant to the Stage I Capital Reorganisation, the Open Offer, the Subscription Agreement and the New Shares Placing Agreement;
6. the Creditors' Schemes having been approved by the Schemes Creditors in accordance with the applicable laws and regulations of Hong Kong and Bermuda and sanctioned by the Courts and filing of the relevant Court orders with the registrar of companies in Hong Kong and Bermuda respectively;
7. the Petitioner having confirmed in writing that it will withdraw the Petition (which withdrawal may be conditional on the subscription price for the Subscription Shares having been received by the Provisional Liquidators on behalf of the Company);
8. an order having been issued by the Hong Kong Court discharging and releasing the Provisional Liquidators (which order may be conditional on the subscription price of the Subscription Shares having been received by the Provisional Liquidators on behalf of the Company);

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## LETTER FROM THE BOARD

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9. all requirements under the applicable laws and regulations of Hong Kong and Bermuda for the implementation of the Creditors' Schemes having been complied with;
10. the Open Offer becoming unconditional in all respects (save any condition requiring the Restructuring Agreement to become unconditional) and the Underwriting Agreement not having been terminated by the Underwriter;
11. the places lists of the Placing Shares and the Sale Shares pursuant to the Placing Agreements being submitted to and approved by the Stock Exchange and (if applicable) the SFC;
12. the Placing Agreements becoming unconditional in all respects (save any condition requiring the Restructuring Agreement to become unconditional) and the Placing Agreements not having been terminated by the Placing Agent;
13. consents and approvals of all relevant government and regulatory authorities and any other persons for the implementation and completion of the Restructuring Proposal and the transactions contemplated under the Restructuring Agreement having been obtained;
14. the fulfillment by the Company and/or the Investor (as the case may be) of the conditions imposed by a letter dated 27th September, 2005 from the Listing (Review) Committee of the Stock Exchange;
15. the granting by the Listing Committee of the Stock Exchange the listing of, and permission to deal in, the Adjusted Shares in issue and to be issued pursuant to the Stage I Capital Reorganisation, the Subscription, the New Shares Placing and the Open Offer (either unconditionally or subject to such conditions acceptable to the Company and the Investor); and
16. the clearance in principle by the Stock Exchange of an announcement to be issued by the Company (in the form approved by the Stock Exchange and (if applicable) the SFC) confirming the fulfilments of all conditions precedent to the Restructuring Agreement and the date on which resumption of trading in the Adjusted Shares will occur, which shall not be later than two Business Days after publication of such announcement.

The Company, the Provisional Liquidators and the Investor may jointly agree in writing to waive the conditions 7 and 8 above. None of the Provisional Liquidators, the Company nor the Investor may waive any of the conditions precedent set out in other paragraphs. The long-stop date for the fulfillment of the above conditions precedent is 31st August, 2006 or such other date as the Company, the Provisional Liquidators and the Investor may agree in writing.

## LETTER FROM THE BOARD

### CHANGES IN SHAREHOLDING

As part of the measures to restore the public float as required under the Listing Rules, the Company will implement the Open Offer and the New Shares Placing whilst the Investor will engage the Placing Agent to carry out the Sales Shares Placing. Upon completion of the Placings (assuming the Placing Shares are subscribed in full and all the Sale Shares are successfully placed), the Investor will be interested in 75.0% of the enlarged issued share capital of the Company. The following table illustrates the existing shareholding structure and changes in the shareholding of the Company following implementation of the Restructuring Proposal (assuming the Placing Shares are subscribed in full and all the Sale Shares are successfully placed):

	As at the Latest Practicable Date		After Stage I Capital Reorganisation becoming effective		Upon Completion and assuming zero acceptance of the Offer Shares by Existing Shareholders		Upon Completion and assuming 100% acceptance of the Offer Shares by Existing Shareholders	
	No. of Shares	%	No. of Adjusted Shares	%	No. of Adjusted Shares	%	No. of Adjusted Shares	%
<b>Investor</b>	–	0.00%	–	0.00%	2,271,250,000	75.00%	2,271,250,000	75.00%
<b>Placings and other Shareholders</b>								
Placings of New Shares Placing	–	0.00%	–	0.00%	374,627,374	12.37%	374,627,374	12.37%
Placings of Sale Shares Placing	–	0.00%	–	0.00%	156,500,000	5.17%	156,500,000	5.17%
Underwriter or independent subscribers of Offer Shares procured by it	–	0.00%	–	0.00%	145,372,626	4.80%	–	0.00%
	–	0.00%	–	0.00%	676,500,000	22.34%	531,127,374	17.54%
<b>Existing Shareholders</b>								
Vandor Profits Limited (Note 1)	618,720,250	7.66%	6,187,202	7.66%	6,187,202	0.20%	17,324,166	0.57%
Bank of China ((HK) Nominees Ltd. (Note 2)	1,811,940,295	22.44%	18,119,403	22.44%	18,119,403	0.60%	50,734,328	1.68%
Existing public Shareholders	<u>5,645,596,475</u>	<u>69.90%</u>	<u>56,455,965</u>	<u>69.90%</u>	<u>56,455,965</u>	<u>1.86%</u>	<u>158,076,702</u>	<u>5.21%</u>
	<u>8,076,257,020</u>	<u>100.00%</u>	<u>80,762,570</u>	<u>100.00%</u>	<u>80,762,570</u>	<u>2.66%</u>	<u>226,135,196</u>	<u>7.46%</u>
<b>Total</b>	<b><u>8,076,257,020</u></b>	<b><u>100.00%</u></b>	<b><u>80,762,570</u></b>	<b><u>100.00%</u></b>	<b><u>3,028,512,570</u></b>	<b><u>100.00%</u></b>	<b><u>3,028,512,570</u></b>	<b><u>100.00%</u></b>
<b>Public float</b>	<b><u>5,645,596,475</u></b>	<b><u>69.9%</u></b>	<b><u>56,455,965</u></b>	<b><u>69.90%</u></b>	<b><u>757,262,570</u></b>	<b><u>25.00%</u></b>	<b><u>757,262,570</u></b>	<b><u>25.00%</u></b>

*Notes:*

- Vandor Profits Limited is beneficially wholly owned by Mr. Wu, an executive Director.
- Based on DI notice filed, Citigroup is the beneficial owner of those Shares held in the name of Bank of China (HK) Nominee Ltd.

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## LETTER FROM THE BOARD

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### WHITEWASH WAIVER

Upon Completion (assuming the Placing Shares are subscribed in full and all the Sale Shares are successfully placed), the Investor and its Concert Parties will be interested in an aggregate of approximately 75.0% of the enlarged issued share capital of the Company. Accordingly, the Investor and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of the Company other than those already owned or agreed to be subscribed by the Investor or its Concert Parties. The Investor has applied to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders by way of poll at the SGM.

Completion is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders by way of poll at the SGM. The Investor will not waive this condition precedent. Completion will not take place and the Restructuring Proposal will not proceed if the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders.

As the Investor will hold more than 50% of the enlarged issued share capital of the Company upon Completion, it may purchase and/or subscribe for additional Adjusted Shares without triggering any further obligation for a general offer under the Takeovers Code.

Other than pursuant to the Subscription Agreement, neither the Investor nor any of its Concert Parties was interested in any Shares, warrants, options, derivatives or securities convertible into Shares as at the Latest Practicable Date nor had they dealt in any Shares during the period of six months prior to the date of the Announcement. The Investor and its Concert Parties have undertaken that they will not deal in the Shares during the period up to and including the date of completion of the Subscription.

### BACKGROUND INFORMATION ON THE INVESTOR

The Investor is a company incorporated in the BVI with limited liability and is owned as to 51% by a trust of which Mr. Wong and his family members are discretionary beneficiaries, as to 20% by Mr. Chu Kwok Chi Robert and as to 29% by Mr. Cheng Hairong . The Investor, its beneficial owners and their respective Concert Parties are third parties independent of the Company and its connected persons. The principal business of the Investor is investment holding. It has not undertaken any business activities other than making the Restructuring Proposal to the Provisional Liquidators, providing working capital to the Group and entering into the relevant agreements. Mr. Wong and Mr. Chu will be appointed as executive Directors upon Completion.

Mr. Wong, aged 45, holds a Bachelor Degree in Social Science, major in Economics. He has worked in the banking and finance industry for over 20 years, particularly in the investment banking sector. Between 1990 and 2002, Mr. Wong worked with the CEF Group, a joint venture between Cheung Kong Holdings Limited and Canadian Imperial Bank of Commerce, and held the position of managing director of CEF Capital Limited since 1995. Mr. Wong was a director of CEF Capital Limited and CEF (Capital Markets) Limited and

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## LETTER FROM THE BOARD

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was a member of the commitment committee of the CEF Group approving all underwriting and credit risk related transactions. He has extensive experience in fund-raising, financial products and corporate restructuring.

Mr. Chu, aged 55, holds a Bachelor Degree in Business Administration and has over 30 years' experience in international trade and the electronics industry. Mr. Chu has been responsible for the marketing, trading and production functions of various private and listed consumer electronics companies in Hong Kong. He was the managing director of a subsidiary of the Company during the 10 years from 1990 to 2000. Mr. Chu has been acting as a consultant for the Group since August 2004.

Mr. Cheng, aged 45, has over 20 years' experience in China finance and investment, including life sciences, energy saving, finance services and brokerage. He is the Researcher of China National Research Institute and Contracted Researcher of China Management Science Institute's Academic Committee. He was the founder and managing director of China Point Stock Brokers Limited. He has diverse and extensive experience and business connections in the PRC.

### **FUTURE INTENTIONS OF THE INVESTOR REGARDING THE RESTRUCTURED GROUP**

In the past, the Group was principally engaged in the manufacture and sale of consumer electronic products including television and audio visual products and their respective components. As a result of the financial difficulties suffered by the Group since 2002, the operation of the Group was scaled down substantially. Since the entering into of the Costs Escrow Agreement, the Group has changed its business model to focus on the sale and marketing of consumer electronic products, product design and customer relationships, with manufacturing work being subcontracted out to independent third parties. Much of the Group's business operation has been carried out by Innovision, being the principal subsidiary of the Company, since 18th June, 2004.

#### **Business plan**

Following Completion, the Investor intends that the Restructured Group will continue its existing principal business of sale and marketing of consumer electronic products including television sets, DVD players and home theatre systems, and will continue to undertake product design and marketing. Manufacturing work will still be subcontracted to independent third parties before acquiring suitable manufacturing facilities. The Investor has identified, on behalf of the Company, a potential seller of suitable manufacturing facilities. Nevertheless, as the Company is still under provisional liquidation, the potential seller considers it inappropriate to commence active negotiation on the terms and conditions of the possible sale. Upon Completion, if agreement can be reached with the potential seller, the Company will invest in a manufacturing facility for production of its consumer electronic products. The Investor does not intend to re-deploy or dispose of any of the assets of the Restructured Group other than in the ordinary course of business. The Investor has no intention of injecting any assets or business to the Restructured Group. The Restructured Group will continue to seek new business opportunities to improve the Group's profitability

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## LETTER FROM THE BOARD

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and prospects, which may include the forming of joint ventures in the PRC. The Investor is exploring, on behalf of the Company, the fast growing commodity sector which includes oil-related and non-ferrous metal business.

It is the intention of the Investor to maintain the listing of the Company on the Stock Exchange. **Resumption of trading in the shares of the Company is subject to, among other things, the restoration of the public float of 25% of the enlarged issued share capital of the Company. The Investor will undertake to the Company and the Stock Exchange that it will use its best endeavours and take appropriate steps to ensure that an adequate number of the Adjusted Shares will be placed to independent third parties to maintain the public float of not less than 25% of the enlarged issued share capital of the Company immediately after Completion but prior to resumption in order to meet the minimum public float requirement under Rule 8.08 of the Listing Rules.**

The Stock Exchange has further stated that, as long as the Company remains listed on the Stock Exchange, any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to the Shareholders irrespective of the size of the proposed transactions particularly when such proposed transaction represents a departure from the principal activities of the Group following Completion. The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of the Company and any such transactions may result in the Company being treated as if it were a new applicant and subject to the requirements for new applicants as set out in the Listing Rules.

### **Directors and management**

The current Board comprises five executive Directors and three independent non-executive Directors. Pursuant to the Restructuring Agreement, all existing executive Directors will resign from the Board on Completion and new executive Directors to be nominated by the Investor (including Mr. Wong and Mr. Chu) will be appointed. Particulars of Mr. Wong and Mr. Chu have been set out under the section headed “Background information on the Investor”. The three independent non-executive Directors will continue to serve on the Board.

### **RENEWAL OF GENERAL MANDATES**

The share capital of the Company will be enlarged as a result of the Restructuring Proposal. The New Issue Mandate and the Repurchase Mandate will expand and replace the existing general mandates to issue and repurchase shares to ensure that the Adjusted Shares issued in connection with the Restructuring Proposal will be included in calculating the number of shares which are permitted to be allotted, issued or otherwise dealt with or repurchased by the Company under the general mandates to issue and repurchase shares.

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## LETTER FROM THE BOARD

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The New Issue Mandate will give the Directors the authority to allot and issue shares up to an aggregate nominal value not exceeding 20% of the share capital of the Company in issue immediately after completion of the Restructuring Proposal. The Repurchase Mandate will give the Directors the authority to repurchase shares up to 10% of the aggregate nominal amount of the issued share capital of the Company immediately after completion of the Restructuring Proposal. The Directors have no immediate plan to use the New Issue Mandate and the Repurchase Mandate to issue or repurchase securities of the Company, but consider both mandates to be in the interests of the Company in order to provide itself flexibility. An explanatory statement containing the relevant information on the repurchase of securities of the Company as required by the Listing Rules is contained in Appendix IV to this document.

### SGM

Set out on pages 145 to 153 in this document is a notice convening the SGM which will be held at 10:30 a.m. on 22nd June, 2006 at The Kimberley Hotel, 28 Kimberley Road, Tsimshatsui, Hong Kong at which resolutions will be proposed to approve, among other things, the Restructuring Proposal and the transactions contemplated thereunder (including the Whitewash Waiver) and the General Mandates.

The Capital Reorganisation, the Subscription, the Creditors' Schemes, the Open Offer and the Placings are inter-conditional (save and except for Stage I Capital Reorganisation). In accordance with the Listing Rules, the Directors and the chief executive of the Company and their respective associates are required to abstain from voting in favour of the resolution to approve the Open Offer. As the Subscription, the Creditors' Scheme, the Open Offer and the New Share Placing form part and parcel of the Restructuring Proposal, the Directors and the chief executive of the Company and their respective associates will also abstain from voting in favour of the relevant resolutions at the SGM. The resolutions in relation to the General Mandates shall be approved by the Shareholders at the SGM.

The form of proxy for use at the SGM is enclosed with this document. Whether or not Shareholders intend to attend the meeting, they are requested to complete the accompanying form of proxy and return in accordance with the instructions printed thereon and return it as soon as possible to the branch share registrar of the Company, Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the SGM. Delivery of a form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjourned meeting should they so desire.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 37 of this document. The Independent Board Committee, having taken into account the advice of Tanrich and Altus Capital, the text of which is set out on pages 38 to 56 of this document, considers that the terms of the Restructuring Proposal and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly,

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## LETTER FROM THE BOARD

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the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions set out in the notice of the SGM to approve the Restructuring Proposal and the Whitewash Waiver.

The Directors consider that the New Issue Mandate and the Repurchase Mandate will provide flexibility to the Company and advise the Shareholders to approve the resolutions in relation thereto.

### FURTHER INFORMATION

Your attention is drawn to the letter of advice from Tanrich and Altus Capital and the additional information set out in the appendices in this document.

Yours faithfully,

For and on behalf of the Board  
**Great Wall Cybertech Limited**  
**(Provisional Liquidators Appointed)**

**Derek Lai**  
*Joint and Several Provisional Liquidator*

For and on behalf of the Board  
**Great Wall Cybertech Limited**  
**(Provisional Liquidators Appointed)**

**Tse On Kin**  
*Director*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**GREAT WALL CYBERTECH LIMITED**

**長城數碼廣播有限公司\***

**(Provisional Liquidators Appointed)**

**(Stock code: 689)**

*(incorporated in Bermuda with limited liability)*

29th May, 2006

*To the Independent Shareholders*

Dear Sir or Madam,

**RESTRUCTURING PROPOSAL AND THE WHITEWASH WAIVER**

We have been appointed as members of the Independent Board Committee to advise you in connection with the Restructuring Proposal and the Whitewash Waiver, details of which are set out in the letter from the Board contained in this document (the “Document”). Capitalised terms defined in the Document shall have the same meanings herein, unless the context otherwise requires.

Having taken into account the advice and recommendation of Tanrich and Altus Capital as set out on pages 38 to 56 of the Document, we are of the opinion that the Restructuring Proposal is in the interest of the Company and the Shareholders as a whole and the terms of the Restructuring Proposal and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Restructuring Proposal and the Whitewash Waiver.

Yours faithfully,

**Lee Shue Shing Xu Xiaoke Poon Kwok Shin, Edmond**

*Independent Board Committee*

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## LETTER OF ADVICE FROM TANRICH AND ALTUS CAPITAL

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*The following is the text of the letter of advice from Tanrich and Altus Capital to the Independent Board Committee and the Independent Shareholders in relation to the Restructuring Proposal and the application of Whitewash Waiver for the purpose of inclusion in this document.*

**TANRICH**  
Tanrich Capital Limited

16/F Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong

**ALTUS CAPITAL LIMITED**

8/F Hong Kong Diamond Exchange Building  
8 Duddell Street, Central  
Hong Kong

29th May, 2006

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir/Madam,

**RESTRUCTURING PROPOSAL INVOLVING  
CAPITAL REORGANISATION, SUBSCRIPTION,  
CREDITORS' SCHEMES, OPEN OFFER, PLACINGS,  
GROUP REORGANISATION,  
AND  
APPLICATION FOR WHITEWASH WAIVER**

### **INTRODUCTION**

We refer to our appointment as Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the Restructuring Proposal and the Whitewash Waiver, details of which are set out in the document to the Shareholders dated 29th May, 2006 (the "**Document**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Document unless the context requires otherwise.

An Independent Board Committee, comprising all the independent non-executive Directors, being Mr. Lee Shue Shing, Mr. Wu Xiaoke and Mr. Poon Kwok Shin, Edmond, has been established to advise the Independent Shareholders as to whether the terms of the Restructuring Proposal and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and whether the Restructuring Proposal and the Whitewash Waiver are in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote.

As the Joint Independent Financial Advisers to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee for it to advise the Independent Shareholders as to whether the respective terms of the Restructuring Proposal and the Whitewash Waiver are fair and reasonable as far as the Independent

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## LETTER OF ADVICE FROM TANRICH AND ALTUS CAPITAL

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Shareholders are concerned. We confirm that we are independent from the Company and its connected persons and are not involved in any circumstances stated under Rule 13.84 of the Listing Rules.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Document and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries, the Provisional Liquidators and the Investor. We have assumed that all information, facts, opinions and representations made or referred to in the Document were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Document and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, the Provisional Liquidators or the Investor will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries, the Provisional Liquidators and the Investor. The Directors, the Provisional Liquidators and the Investor have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Document or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries, the Provisional Liquidators and the Investor. We have also assumed that each of the agreements relating to the Restructuring Proposal is enforceable against each of the parties thereto in accordance with its terms and that each of the parties will perform, and will be able to perform, its obligations thereunder, and as otherwise described in the Document, in full when due.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Document have been arrived at after due and careful consideration and there are no other facts not contained in the Document, the omission of which would make any statement in the Document misleading.

The Provisional Liquidators jointly and severally accept full responsibility for the accuracy of the information contained in the Document other than that relating to the Investor or its director and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Document have been arrived at after due and careful consideration and there are no other facts not contained in the Document, the omission of which would make any statement in the Document other than those relating to the Investor or its director misleading.

The Investor and its director jointly and severally accept full responsibility for the accuracy of the information contained in the Document other than information relating to the Group or the Provisional Liquidators and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Document have been arrived at

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## LETTER OF ADVICE FROM TANRICH AND ALTUS CAPITAL

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after due and careful consideration and there are no other facts not contained in the Document, the omission of which would make any statement in the Document, other than those relating to the Group or the Provisional Liquidators, misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or the future prospect of the Restructured Group.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Restructuring Proposal and the Whitewash Waiver and, except for its inclusion in the Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. THE RESTRUCTURING PROPOSAL

##### 1.1. Background and summary

The Group suffered severe financial difficulties in 2002 and 2003 and lost control of a number of principal subsidiaries. On 25th March, 2003, the Petitioning Creditor lodged a winding-up petition against the Company as a result of it failing to meet statutory demands for settlement of a debt of approximately HK\$17.8 million owed by a subsidiary of the Company and for which the Company is the guarantor. Trading in the Shares was suspended from 24th March, 2003 and remained suspended as of the Latest Practicable Date. Upon the application of the Company by summons filed on 30th April, 2003, Mr. Derek K. Y. Lai and Mr. Joseph K. C. Lo of Deloitte Touche Tohmatsu were appointed as the Provisional Liquidators by the Hong Kong Court on 21st June, 2003 with powers to, among other things, preserve the assets of the Company, and to consider and review restructuring proposals and/or scheme of arrangement so as to avoid the Company being wound up.

Since their appointment, the Provisional Liquidators, through their financial adviser, have been searching for potential investors for the Company. The Provisional Liquidators received restructuring proposals from three potential investors (including the Investor) but two of the proposals were subsequently withdrawn, resulting in the restructuring proposal put forward by the Investor being the only proposal available to the Provisional Liquidators. Consequently, the Company, the Provisional Liquidators and the Investor entered into the Costs Escrow Agreement in June 2004.

The Company was placed in its third stage of the delisting procedure under Practice Note 17 of the Listing Rules on 22nd July, 2004 and was given a final six months' period up to January 2005 for the submission of a resumption proposal to the

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## LETTER OF ADVICE FROM TANRICH AND ALTUS CAPITAL

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Stock Exchange. The Listing (Review) Committee of the Stock Exchange allowed the Company to proceed with the Restructuring Proposal subject to fulfillment of certain conditions, details of which are set out in the “Letter from the Board”. The Company will ensure satisfaction of the outstanding conditions before application for resumption in trading of the securities of the Company.

Based on the audited financial statements for the year ended 31st December, 2003, the Group recorded audited net liabilities of approximately HK\$497.6 million as at 31st December, 2003. Pursuant to the Costs Escrow Agreement in June 2004, the Investor has made available working capital to the Group for its business reactivation.

On 13th April, 2006, the Company, the Provisional Liquidators and the Investor entered into the Restructuring Agreement for the implementation of the Restructuring Proposal. The primary objectives of the Restructuring Proposal are (i) to inject new capital into the Company for settlement, through the Creditors’ Schemes, of the Indebtedness and (ii) to strengthen the Restructured Group’s financial position. Upon Completion, it is expected that the Company will emerge from provisional liquidation.

If the Restructuring Proposal is not successfully implemented, in view of the fact that the third stage of the delisting procedures under Practice Note 17 of the Listing Rules imposed on the Company has expired in January 2005, the Provisional Liquidators believe that it is unlikely that there would be another viable alternative restructuring proposal available to the Group. In this case, there is a high possibility that the Company would be wound up.

Trading in the securities of the Company will be resumed subject to fulfillment of conditions imposed by the Listing (Review) Committee of the Stock Exchange and completion of the Restructuring Proposal. Completion is subject to the fulfillment of certain conditions as set out under the paragraph headed “Conditions precedent to the Restructuring Agreement” in the “Letter from the Board”.

### **1.2. Financial position of the Group**

Shareholders should note that there had been delays in the publishing of the Company’s financial reports in each of the four period/years ended 31st December 2005, which is in breach of the requirements of the Listing Rules.

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## LETTER OF ADVICE FROM TANRICH AND ALTUS CAPITAL

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Set out below is a summary of the Group's audited consolidated results for the four period/years ended 31st December, 2005<sup>(Note 1)</sup>.

### Results

	<b>Period/Year ended 31st December,</b>			
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<i>(from 1st April 2002 to 31st December 2002)</i>			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	137,501	59,070	119,677	513,610
Profit/(loss) attributable to Shareholders	(896,854)	(35,697)	200,450 <sup>(Note 2)</sup>	8,201

### Statement of net assets/liabilities

	<b>As at 31st December,</b>			
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	73,857	48,037	2,532	13,982
Total liabilities	(546,288)	(545,595)	(305,110)	(308,359)
Net (liabilities)	(472,431)	(497,558)	(302,578)	(294,377)

#### Notes:

- (1) These figures are based on the audited financial statements of the Group on which the auditors made a disclaimer of opinion.
- (2) If the gain on deconsolidation of subsidiaries of approximately HK\$205.2 million was excluded, the Group would record a net loss of approximately HK\$4.8 million for the year ended 31st December, 2004.

The Group suffered severe financial difficulties in 2002 and 2003 and lost control of a number of principal subsidiaries. For the nine months ended 31st December, 2002 and the year ended 31st December, 2003, the Group recorded audited losses attributable to Shareholders of approximately HK\$896.9 million and HK\$35.7 million respectively. The substantial losses attributable to the Shareholders in 2002 was mainly due to (i) provision of approximately HK\$578.7 million on dues from subsidiaries for which the Company had lost control and therefore whose accounts were not consolidated into that of the Company; and (ii) losses of approximately HK\$291.1 million resulting from the Company having indemnified certain banks and suppliers of its subsidiaries. Based on the audited financial statements for the year ended 31st December, 2003, the Group recorded audited net liabilities of approximately HK\$497.6 million as at 31st December, 2003.

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## LETTER OF ADVICE FROM TANRICH AND ALTUS CAPITAL

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Since the entering into of the Costs Escrow Agreement in June 2004, the Investor has made available working capital to the Group for its business reactivation. Pursuant to a loan agreement dated 9th July, 2004 signed between GW Infrastructure (the “**Borrower**”) and the Investor, the Investor agreed to provide a loan facility of up to HK\$3 million to the Borrower for the purpose of providing short term finance to the Borrower as general working capital. The rate of interest payable on the loan is 2% per annum above the prime rate. Based on the information provided by the Company, the Investor provided additional working capital to the Company in excess of the HK\$3 million working capital facilities upon mutual agreement between the Company and the Investor and during the financial year of 2005, the maximum loan provided to the Group by the Investor was approximately HK\$5.8 million. And based on the unaudited consolidated management accounts of the Company as at 31st March, 2006, the balance has reduced to only approximately HK\$349,000.

In addition, the Investor has helped to rebuild the sales team of the Group with experienced professionals who have good business networks in the consumer electronic products industry. The Group has been able to accelerate reactivation of its business of sale of consumer electronic products including DVD players, home theatre systems and television sets from June 2004 onwards by subcontracting production to outside parties. Since then, significant progress has been made towards restoring the Group to an active and healthy state. The financial results for the year ended 31st December, 2004 reflect the results of the Group under the new business model which was put in place since June 2004. Turnover of the Group for the year ended 31st December, 2004 increased by approximately two times to HK\$119.7 million while net loss (after excluding one-off items) reduced by approximately 86.6% to approximately HK\$4.8 million when compared with the previous year. For the year ended 31st December, 2005, the Group made significant increase in turnover to approximately HK\$513.6 million and achieved a net profit after tax of approximately HK\$8.2 million, returning the Group to a profitable position albeit small since the financial difficulties experienced by the Group in 2002.

We wish to point out that the then auditors of the Group made a disclaimer of opinion in respect of the audited financial statements of the Group for the four period/years ended 31st December, 2005. They stated that due to the significance of each of (i) the possible effect of the limitations in evidence available to them as set out in the basis of opinion section of their report; (ii) the fundamental uncertainty relating to the going concern basis; and (iii) the non-compliance of certain disclosure requirements, they are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group and of the profit and cash flows of the Group for the year then ended.

The Group’s debt ratios as at 31st December, 2002, 2003, 2004 and 2005 measured by total liabilities divided by total assets were approximately 7.4 times, 11.4 times, 120.5 times, and 22.1 times respectively.

Based on the above, it is apparent that the Group is unlikely to achieve a recovery solely through internal resources and its existing business operations without the contributions of the Investor and the implementation of a restructuring to the Group.

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The contribution of the Investor is evident by the improvements achieved thus far since the Costs Escrow Agreement. The Restructuring Proposal, if implemented, will provide the Restructured Group with the necessary working capital and financial resources to further revitalize its business operations and to compromise and discharge all the Indebtedness through the Creditors' Schemes. Since their appointment, the Provisional Liquidators have been searching for potential investors for the Company. The Provisional Liquidators received restructuring proposals from three potential investors (including the Investor) but two of the proposals were subsequently withdrawn, resulting in the restructuring proposal put forward by the Investor being the only proposal available to the Provisional Liquidators. In view of the current financial conditions of the Group and in the absence of the Restructuring Proposal, the Provisional Liquidators believe that it is unlikely that there would be another viable alternative restructuring proposal available to the Group. In which case, there is a high possibility that the Company would be wound up. In such event, the Shareholders will be unlikely to receive any return in respect of their investments in the Company. On this basis, we consider that the Restructuring Proposal serves the best interests of the Shareholders.

### **1.3. The Restructuring Proposal**

On 13th April, 2006, the Company, the Investor and the Provisional Liquidators entered into the Restructuring Agreement in respect of the Restructuring Proposal which involves, inter alia, (i) the Capital Reorganisation, (ii) the Subscription, (iii) the Creditors' Schemes, (iv) the Open Offer, (v) the Placings, and (vi) the Group Reorganisation.

#### *1.3.1. The Capital Reorganisation*

The Capital Reorganisation comprises two stages. Stage I Capital Reorganisation includes (i) the consolidation of every 100 issued Shares of HK\$0.01 each into one Consolidated Share of HK\$1.00 each; and (ii) immediately upon consolidation, the reduction of the nominal value of each Consolidated Share from HK\$1.00 each to HK\$0.01 each by canceling the paid-up capital to the extent of HK\$0.99 on each issued Consolidated Share.

Under the Stage II Capital Reorganisation, the Company will carry out a cancellation of the entire amount standing to the credit of its (i) share premium account; (ii) capital redemption reserve account, and (iii) capital reserve account. The Company will have share premium of approximately HK\$880.3 million upon Completion, which includes the existing share premium of approximately HK\$792.0 million as at 31st December, 2005 and the share premium which will arise from the issue of the Subscription Shares, the Offer Shares and the Placing Shares in aggregate of approximately HK\$88.3 million. In addition, based on the audited accounts of the Company, the Company had capital redemption reserve of approximately HK\$9.9 million and capital reserve of approximately HK\$71.4 million as at 31st December, 2005.

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The Stage I and II Capital Reorganisation will be subject to, among other matters, the approval by the Shareholders at the SGM.

As a result of the Capital Reorganisation, the contributed surplus of the Company will be increased from approximately HK\$145.4 million to approximately HK\$ 1,183.5 million. The Board proposes to apply such amount of contributed surplus for setting off against the entire accumulated losses of the Company, after deducting the estimated gain arising from the settlement and discharge in full of the Indebtedness.

Given the terms of the Restructuring Agreement, we are of the view that the principal purpose of the Capital Reorganisation is to reorganise the capital base of the Company so as to facilitate the issue of the Subscription Shares and the Additional Shares to the Investor pursuant to the Subscription, the Offer Shares pursuant to the Open Offer and the Placing Shares pursuant to the New Shares Placing. It will also provide the Company with greater flexibility in issuing new Adjusted Shares in the future. Accordingly, we consider the arrangements under the Capital Reorganisation to be fair and reasonable.

### *1.3.2. The Subscription*

The Investor agreed to subscribe for 2,075,000,000 Subscription Shares at a subscription price of HK\$0.04 per Subscription Share. In addition, 352,750,000 Additional Shares will be issued and allotted to the Investor, credited as fully paid, on the basis of 17 Additional Shares for every 100 Subscription Shares subscribed by the Investor. The terms of the Subscription Agreement were determined after arm's length negotiation between the Company, the Provisional Liquidators and the Investor. In accordance with the Listing Rules, the Directors and the chief executive of the Company and their respective associates will abstain from voting on the resolutions approving the Restructuring Proposal, including the Subscription, at the SGM.

The total of 2,427,750,000 Adjusted Shares (comprising 2,075,000,000 Subscription Shares and 352,750,000 Additional Shares) to be issued to the Investor pursuant to the Subscription Agreement represents approximately 30.1 times the issued Adjusted Shares immediately upon the Stage I Capital Reorganisation becoming effective, and approximately 80.2% of the enlarged issued share capital of the Company upon Completion.

As stated in the "Letter from the Board", the subscription price of HK\$0.04 per Subscription Share was determined after taking into consideration various factors including the audited losses attributable to Shareholders incurred by the Group for the nine months ended 31st December, 2002 and the two years ended 31st December, 2003 and 2004 of approximately HK\$896.9 million, HK\$35.7 million and HK\$4.8 million (before the gain on deconsolidation of subsidiaries) respectively and the audited net liabilities position of the Group of approximately HK\$302.6 million as at 31st December, 2004. The total consideration for the Subscription of HK\$83 million will be satisfied by the Investor in cash upon

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Completion. Based on the consideration for the Subscription of HK\$83 million and a total of 2,427,750,000 Adjusted Shares to be issued pursuant to the Subscription Agreement, the effective subscription price to the Investor will be HK\$0.0341 per Adjusted Share.

The effective subscription price of HK\$0.0341 per Adjusted Share is significantly lower than the offer price and placing price of HK\$0.06 per Adjusted Share under the Open Offer and the New Shares Placing. This is a commercial term agreed between the Company and the Investor in recognition of the Investor's contribution in terms of financial and management support to the Group since the signing of the Costs Escrow Agreement in June 2004 almost two years ago.

The effective subscription price per Adjusted Share of HK\$0.0341 represents:

- (i) a discount of approximately 96.6% to the theoretical closing price of approximately HK\$1.0 per Adjusted Share (assuming the proposed Share Consolidation under the Capital Reorganisation becomes effective and based on the closing price of HK\$0.01 per Share on 21st March, 2003); and
- (ii) a discount of approximately 96.6% to the theoretical average closing price of HK\$1.0 per Adjusted Share (assuming the proposed Share Consolidation under the Capital Reorganisation becomes effective and based on the average closing price of HK\$0.01 per Share for the 10 consecutive trading days up to and including 21st March, 2003).

While we noted the above significant discounts to the theoretical closing price per Share, we consider they should not be the primary factor in the evaluation of the issue price of the Subscription Shares under the Subscription. It is noted that trading in the Shares has been suspended since 21st March, 2003 and there have been changes to the business operations and financial conditions of the Group since then. As such, we consider that the closing price of the Shares prior to its suspension of trading on 21st March, 2003 does not reflect the current financial condition and value of the Company and it is therefore inappropriate and irrelevant to use such price for comparison.

The audited adjusted consolidated deficiency in net tangible asset value of the Group as at 31st December, 2005 prior to implementation of the Restructuring Proposal amounted to approximately HK\$294.4 million, equivalent to net liabilities of approximately HK\$0.036 per Share. The issue price of HK\$0.04 per Subscription Share therefore represents a significant premium over the net liabilities attributed to each Share. Also, based on the pro forma statement of unaudited adjusted consolidated net tangible value of the Group stated in Appendix III to the Document, the pro forma unaudited adjusted consolidated net tangible assets of the Restructured Group upon Completion will amount to approximately HK\$88.9 million, equivalent to net tangible assets of approximately

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HK\$0.029 per Adjusted Share. The Restructured Group's net asset position immediately after Completion will be discussed in detail under the section headed "Effects of the Restructuring Proposal" below.

Based on the above, we consider that the subscription price of Subscription Shares, which was arrived at after arm's length negotiation between the Provisional Liquidators and the Investor with reference to the present financial position of the Group, is fair and reasonable.

### *1.3.3. The Creditors' Schemes*

Based on the books and records available to the Company, the Indebtedness owed by the Company to the Schemes Creditors as at 31st December, 2005 amounted to approximately HK\$351.7 million, which was mainly accrued before the Investor put forward the Restructuring Proposal to the Provisional Liquidators. Details of the Indebtedness are set out in the "Letter from the Board".

The Creditors' Schemes, if implemented, will provide for the settlement and discharge in full of the Indebtedness including interests accrued up to the date on which the Creditors' Schemes become effective. The indebtedness figures shown above are for indicative purposes only.

An amount of HK\$21.5 million out of the Subscription proceeds and the entire interests in the Scheme HK Group and Scheme BVI Group (comprising members of the Group which will be excluded from the Restructured Group, but some of which are companies either in the process of winding up and/or over which the Company has lost control, details of which are set out under the section headed "Group Reorganisation" in the "Letter from the Board"), will be transferred to the Scheme Administrators for administration and distributed to the Scheme Creditors.

The Creditors' Schemes will have the effect of, before taking into account other features of the Restructuring Proposal, reducing the indebtedness of the Company from approximately HK\$353.0 million as at 31st December, 2005 to approximately HK\$1.3 million (which represents amounts owed by the Company to two of its wholly-owned subsidiaries which will remain in the Restructured Group and the Shareholder Creditors to the extent of their unclaimed dividend against the Company), thereby enhancing the net assets of the Restructured Group. The actual amount of the Indebtedness to be discharged pursuant to the Creditors' Schemes will be subject to formal adjudication by the Scheme Administrators. Based on the above, we are of the view that the Creditors' Scheme is in the interests of the Company and Independent Shareholders as a whole.

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### *1.3.4. The Open Offer*

Pursuant to the Restructuring Proposal, as part of the measures to restore the 25% public float as required under the Listing Rules, the Company proposes to carry out the Open Offer and the New Shares Placing. The Open Offer enables existing Shareholders to participate in the Restructuring Proposal where under the Open Offer, the Company will issue 9 Offer Shares for every 5 Adjusted Shares held by the Qualifying Shareholders on the Record Date. In effect the Company will issue 145,372,626 Offer Shares pursuant to the Open Offer, which represents approximately 4.8% of the enlarged issued share capital of the Company upon Completion.

The terms of the Open Offer have been determined after arm's length negotiation between the Company, the Provisional Liquidators, the Investor and the Underwriter.

Grand Vinco is the Underwriter to the Open Offer. To the best knowledge of the Directors and the Provisional Liquidators after making all reasonable enquiries, the Underwriter and its controlling shareholder are third parties independent of the Company and its connected persons.

The price per Offer Share of HK\$0.06 represents:

- (i) a discount of approximately 94.0% to the theoretical closing price of approximately HK\$1.0 per Adjusted Share (assuming the proposed Share Consolidation under the Capital Reorganisation becomes effective and based on the closing price of HK\$0.01 per Share on 21st March, 2003); and
- (ii) a discount of approximately 94.0% to the theoretical average closing price of HK\$1.0 per Adjusted Share (assuming the proposed Share Consolidation under the Capital Reorganisation becomes effective and based on the average closing price of HK\$0.01 per Share for the 10 consecutive trading days up to and including 21st March, 2003).

We noted the above significant discounts to the above theoretical closing price. However, due to the similar analysis mentioned under the section "The Subscription" of this letter, we consider that the comparison of issue price of the Offer Share with the above theoretical closing price should not be the primary factor in the evaluation of Open Offer as trading in the Shares has been suspended over three years. Furthermore, pursuant to the rationale of the Open Offer, the existing Shareholders are given the option to participate in the Open Offer by accepting the Offer Shares.

As compared with the net liabilities of approximately HK\$0.036 per Share prior to the implementation of the Restructuring Proposal, the offer price of HK\$0.06 per Offer Share therefore represents a significant premium over the net liabilities attributed to each Share. Also, the pro forma unaudited adjusted

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consolidated net tangible assets of the Restructured Group upon Completion will be approximately HK\$0.029 per Adjusted Share. The Restructured Group's net asset position immediately after Completion will be discussed in detail under the section headed "Effects of the Restructuring Proposal" below. We also noted that the offer price of HK\$0.06 per Offer Share is equal to the minimum issue price of the Placing Shares which was determined after arm's length negotiation between the parties involved and the Placing Shares will be placed to independent third parties.

Based on the above, we consider that the offer price per Offer Share, which was arrived at after arm's length negotiation between the Provisional Liquidators, the Underwriter and the Investor with reference to the present financial position of the Group, is fair and reasonable.

### *1.3.5. The Placings*

Pursuant to the Restructuring Proposal and as additional measures to restore the 25% public float as required under the Listing Rules, (i) the Company, the Provisional Liquidators and Grand Vinco as the Placing Agent entered into the New Shares Placing Agreement on 13th April, 2006 pursuant to which the Placing Agent agreed to place in aggregate 374,627,374 Placing Shares at no less than HK\$0.06 each, and (ii) the Investor, the Company and the Placing Agent entered into the Sale Shares Placing Agreement on 13th April, 2006 pursuant to which the Placing Agent agreed to place in aggregate 156,500,000 Sale Shares at no less than HK\$0.06 each. Pursuant to the above agreements, the Placing Agent will procure the placing of the Placing Shares and the Sale Shares, on a best effort basis, that no less than six independent investors who are third parties independent of the Company and its connected persons, and the Investor. It is not expected that a new substantial Shareholder will be introduced as a result of the Placings.

To the best knowledge of the Directors and the Provisional Liquidators after making all reasonable enquiries, the Placing Agent and its controlling shareholder are third parties independent of the Company and its connected persons. The terms of the Placing Agreements including the placing price were determined after arm's length negotiation between the parties involved.

The 374,627,374 Placing Shares to be issued under the New Shares Placing represent approximately 12.4% of the enlarged issued share capital of the Company upon Completion. The 156,500,000 Sale Shares under the Sale Shares Placing represent approximately 5.17% of the enlarged issued share capital of the Company upon Completion. Details of the changes in shareholding structure of the Company are set out under the section headed "Changes in Shareholding" in the "Letter from the Board".

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The price of the Placing Shares will not be less than the price of the Offer Shares. We consider that the placing price of not less than HK\$0.06 per Placing Shares, which was arrived at after arm's length negotiation between the Provisional Liquidators and the Investor with reference to the present financial position of the Group, is fair and reasonable.

### *1.3.6. The Group Reorganisation*

Pursuant to the terms of the Restructuring Agreement, the Group Reorganisation, details of which are set out in the "Letter from the Board", will be implemented to facilitate implementation of the Creditors' Schemes. Under the Group Reorganisation, a number of subsidiaries will not be included in the Restructured Group because (i) they are either themselves or their immediate holding companies are in the course of liquidation or (ii) the major assets and production facilities of these subsidiaries have been under seizure by the Mainland China Court Orders as a security of the unsettled claims against the Group.

Immediately following Completion, the Restructured Group will principally comprise the Company, BVI Intermediary Holdco, Fortune Hand, GW Infrastructure and Innovision. The principal businesses of BVI Intermediary Holdco, Fortune Hand and GW Infrastructure are investment holding whereas the principal activities of Innovision are sales, marketing, and product design of audio-visual products. Due to financial constraints, instead of manufacturing and selling consumer electronic products as in the past, the Group's current business model is to concentrate on product design, marketing and customers relationships. However, it is the present intention of the Director that they will use up to HK\$20 million of the aggregate net proceeds from the Subscription, the Open Offer and the New Shares Placing for investment in manufacturing facility when suitable manufacturing facility is identified.

## **1.4. Effects of the Restructuring Proposal**

### *1.4.1. Net assets*

As set out in Appendix III to the Document, the pro forma unaudited adjusted consolidated net tangible assets of the Restructured Group upon Completion will amount to approximately HK\$88.9 million, equivalent to approximately HK\$0.029 per Adjusted Share. These represent significant improvements compared with the audited net liabilities of the Group of approximately HK\$294.4 million as at 31st December, 2005, equivalent to deficiency in net tangible asset value of approximately HK\$0.036 per Share prior to the implementation of the Restructuring Proposal.

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The Restructuring Proposal will accordingly improve the net asset position and the capital base of the Restructured Group significantly, by: (i) the cash received under the Subscription, the Open Offer and the New Shares Placing; (ii) the indebtedness compromised and discharged by the Scheme Creditors under the Creditors' Scheme; and (iii) the Group Reorganisation.

In view of the enhancement in the overall pro forma net asset position of the Restructured Group, we consider that the Restructuring Proposal is in the interests of the Company and the Independent Shareholders as a whole.

### *1.4.2. Working capital*

The aggregate net proceeds from the Subscription, the Open Offer and the New Shares Placing of approximately HK\$105 million will be applied by the Company as follows:

- HK\$21.5 million for the settlement of the Indebtedness pursuant to the Creditors' Schemes, subject to a deduction of approximately HK\$1 million for payment for the Scheme Administration Costs and related petition costs;
- where suitable manufacturing facility is identified, up to HK\$20 million for such investment; and
- the remaining balance of HK\$63.5 million will be retained for the present as working capital for the Restructured Group. However, the Directors will continue to seek new business opportunities to improve the Restructured Group's profitability and prospects and may consider using a portion of the balance to diversify the Restructured Group's business should appropriate opportunities arise.

The working capital of the Group is therefore expected to improve after Completion.

As set out under the section headed "Working Capital" in Appendix III to the Document, (i) the Directors are of the opinion that, in the absence of unforeseen circumstances and subject to Completion and the New Shares Placing being subscribed in full, the Restructured Group will have sufficient working capital for the period from 1st January, 2006 up to 30th June, 2007 (the "Projection Period") (the "Statement"); and (ii) based on cash flow projections of the Restructured Group for the Projection Period, the expected cash balance at the end of the Projection Period is approximately HK\$70 million which is expected to improve substantially as compared with the audited cash balance of the Group of approximately HK\$59,000 as at 31st December, 2005. Furthermore, as set out under the section headed "Comfort letter for the working capital sufficiency of the Restructured Group up to 30th June, 2007" in Appendix III to the Document, the auditor of the Company, Ting Ho Kwan & Chan, has reviewed the compilation of

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the cash flow projections of the Restructured Group and are of the view that the Statement made by the Directors has been made after due and careful enquiry and consideration.

Based on the above, it is noted that the working capital and financial positions of the Group can be expected to improve after Completion and this is favourable to the Group and the Shareholders as a whole.

### *1.4.3. Indebtedness*

As at 31st March, 2006, the estimated indebtedness of the Group was approximately HK\$306.0 million. Following Completion, all of the Indebtedness will be compromised and discharged by the Scheme Creditors pursuant to the Creditors' Scheme except for the indebtedness owed to GW Infrastructure and Innovision and the Shareholder Creditors to the extent of their unclaimed dividend against the Company. Scheme HK Group and Scheme BVI Group will be removed from the Restructured Group under the Restructuring Proposal. Consequently, upon Completion, the Restructured Group will have only manageable and serviceable trade debts among the remaining subsidiaries. Interest burden of the Group will be significantly reduced and this will have a positive impact on the Group's operating results.

### *1.4.4. Dilution effect on the shareholding*

As a result of the issuance of the Subscription Shares, Additional Shares, Offer Shares and the Placing Shares, the percentage shareholding of the existing Shareholders in the Company will decrease upon Completion. The effects on the existing shareholding structure of the Company upon Completion are set out in the paragraph headed "Changes in shareholding" in the "Letter from the Board". In order to assess the fairness and reasonableness of the dilution effect on the Company's existing shareholding structure under the Restructuring Proposal, we have identified, based on published information and to the best of our knowledge, all those companies listed on the main board of the Stock Exchange which had undergone and completed restructuring exercises within the past 36 months before the date of the Announcement, for comparison purpose ("Comparables").

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The table below summarizes the dilution effects on the shareholding structure of the Comparables and the Company:

Stock code	Company	Date of circular	Shareholding of public shareholders		Dilution
			Before restructuring	After restructuring	
286	G-Prop (Holdings) Limited	5th September, 2003	83.60%	1.53%	98.17%
181	Fujian Group Limited	9th October, 2003	44.70%	11.00%	75.39%
269	Seapower Resources International Limited	21st October, 2003	72.45%	1.41%	98.05%
1208	Oriental Metals (Holdings) Limited	6th November, 2003	54.80%	11.90%	78.28%
979	China Nan Feng Group Limited	6th November, 2003	77.10%	59.60%	22.70%
240	I-China Holdings Limited	24th February, 2004	75.00%	1.50% <i>(note 3)</i>	98.00%
577	Skynet (International Group) Holdings Limited	30th November, 2004	100.00%	8.80%	91.20%
<b>689</b>	<b>The Company</b>	<b>29th May, 2006</b>	<b>69.90%</b>	<b>1.86%</b> <i>(note 1) or</i> <b>5.22%</b> <i>(note 2)</i>	<b>97.34%</b> <i>(note 1) or</i> <b>92.53%</b> <i>(note 2)</i>

*Notes:*

1. After Capital Reorganisation becoming effective and completion of, among others, Subscription, Placings and assuming zero acceptance of the Open Offer by existing Shareholders
2. After Capital Reorganisation becoming effective and completion of, among others, Subscription, Placings and assuming 100% acceptance of the Open Offer by existing Shareholders
3. Based on the shareholding of I-China following the completion of its restructuring but before conversion of any I-China preference shares issued under its restructuring

As disclosed above, the shareholding of the existing public Shareholders will be diluted from approximately 69.90% to approximately 1.86% of the enlarged issued share capital of the Company following Completion assuming zero acceptance of the Open Offer by the existing public Shareholders, representing a

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dilution by approximately 97.34%, which is within the range of dilution among the Comparables. Such dilution is resulted from the issue of new shares pursuant to the Subscription, Placings and the Open Offer. We have mentioned above, the existing Shareholders are given the option to participate in the Reorganisation Proposal by accepting the Offer Shares. If all the existing Shareholders accept all of their entitlements under the Open Offer, the shareholding of the existing public Shareholders will be diluted from approximately 69.90 % to approximately 5.22%, representing a dilution by approximately 92.53 %. In this case, the dilution effect will decrease from 97.34% to 92.53%. All existing Shareholders will be classified as public upon Completion.

We noted that trading in the Shares has been suspended since 24th March, 2003. It is currently expected that the Adjusted Shares will resume trading following Completion if the Restructuring Proposal is successfully implemented and the public float is restored. The Group has a net liabilities position and has limited working capital for its ongoing business. Under such circumstances and in the absence of the Restructuring Proposal, the Company will not have the ability to pay its liabilities and might eventually be wound up. In such case, the Shareholders will be unlikely to receive any return from their investments in the Company. The success of the implementation of the Restructuring Proposal is crucial for the Company and Shareholders as a whole as it provides an opportunity for the turnaround of the Company. On this basis, we consider that the degree of dilution in the shareholding of the Shareholders who are considered as falling within the public hands (within the meaning ascribed thereto in the Listing Rules) as a result of the Subscription, Open Offer and Placings, though substantial, is acceptable.

### **2. FUTURE INTENTION OF THE INVESTOR REGARDING THE RESTRUCTURED GROUP**

The Investor is a company incorporated in the BVI with limited liability and is owned as to 51% by a trust of which Mr. Wong and his family members are discretionary beneficiaries, as to 20% by Mr. Chu Kwok Chi Robert and as to 29% by Mr. Cheng Hairong. The Investor, its beneficial owners and their respective Concert Parties are third parties independent of the Company and its connected persons. The principal business of the Investor is investment holding. It has not undertaken any business activities other than making the Restructuring Proposal to the Provisional Liquidators, providing working capital to the Group and entering into the relevant agreements. Mr. Wong and Mr. Chu will be appointed as executive directors of the Company upon Completion.

As set out in the “Letter from the Board”, following Completion, the Investor intends that the Restructured Group will continue its existing principal business of sale and marketing of consumer electronic products. Manufacturing work will still be subcontracted to independent third parties before acquiring suitable manufacturing facilities. The Investor has identified, on behalf of the Company, a potential seller of suitable manufacturing facilities. Nevertheless, as the Company is still under provisional liquidation, the potential seller considers it inappropriate to commence active negotiation on the terms and conditions of the possible sale. Upon Completion, if agreement can be reached with the potential seller,

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the Company will invest in a manufacturing facility for production of its consumer electronic products. The Investor does not intend to re-deploy or dispose of any of the assets of the Restructured Group other than in the ordinary course of business and has no intention of injecting any assets or business to the Restructured Group. The Restructured Group will continue to seek new business opportunities to improve the Group's profitability and prospects. The Investor is exploring, on behalf of the Company, the fast growing commodity sector which includes oil-related and non-ferrous metal business.

Based on the above and having reviewed the biography of each of the new executive Directors to be appointed set out in the Document, we noted that Mr. Wong has served as director or managing director in financial institutions in Hong Kong and has extensive experience and wide range of expertise in areas such as (i) fund-raising; (ii) financial products and (iii) corporate restructuring. Mr. Chu has been responsible for the marketing, trading and production functions of various private and listed consumer electronics companies in Hong Kong. He was the managing director of a subsidiary of the Company during the 10 years from 1990 to 2000.

On this basis, we concur with the Investor that the proposed Directors including Mr. Wong and Mr. Chu possess the relevant expertise to carry out the business plan of the Restructured Group proposed by the Investor after Completion and to operate the Restructured Group going forward.

### **3. THE WHITEWASH WAIVER**

Upon Completion (assuming the Placing Shares are subscribed in full), the Investor and its Concert Parties will be interested in an aggregate of approximately 75.0% of the enlarged issued share capital of the Company. Accordingly, the Investor and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of the Company other than those already owned or agreed to be subscribed by the Investor or its Concert Parties. The Investor has applied to the Executive for the Whitewash Waiver which if granted will be subject to the approval of the Independent Shareholders by way of poll at the SGM. The Capital Reorganisation, the Subscription, the Creditors' Schemes, the Open Offer and the Placings are inter-conditional (save and except for Stage I Capital Reorganisation). In accordance with the Listing Rules, the Directors and the chief executive of the Company and their respective associates will abstain from voting on the resolutions approving the Restructuring Proposal at the SGM.

Completion is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders by way of poll at the SGM. The Investor will not waive this condition precedent. Completion will not take place and the Restructuring Proposal will not proceed if the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders.

The successful implementation of the Restructuring Agreement will: (i) alleviate the financial stress currently encountered by the Group; (ii) improve the Group's overall financial position and operating condition; and (iii) enhance the value of the Company. On the contrary, in the absence of the Restructuring Proposal, the Petitioning Creditor will

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## LETTER OF ADVICE FROM TANRICH AND ALTUS CAPITAL

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proceed with the liquidation and winding up of the Company, in which case, it is likely that there would be a far less favourable return to the Shareholders, if any, compared to the return available under the Restructuring Proposal. Therefore, we consider that the grant of the Whitewash Waiver, being an essential element of the Restructuring Proposal and a common feature in similar rescue proposals for companies which are in grave financial difficulties and revived as a result of injection of funds/assets by new investors, is fair and reasonable in the context of the financial rescue of the Company and is therefore in the interests of the Shareholders and the Company as a whole.

### RECOMMENDATION

We have considered the principal factors and reasons as summarized below:

1. the discharge and waiver of Indebtedness upon Completion;
2. the injection of funds from the Subscription, the Open Offer and the New Shares Placing which is critical to the operations of the Group's existing businesses;
3. the improvement in the working capital position and financial position of the Group from a net liabilities position to a net assets position upon Completion;
4. the likelihood of a liquidation of the Company if it fails to restructure its indebtedness;
5. that Shareholders will be unlikely to receive any return in the event of a liquidation and winding up of the Company; and
6. that, based on their biographies, the members of the new Board possess the relevant expertise and skills to operate the Restructured Group going forward.

Based on the above, we are of the view that the Restructuring Proposal is in the interests of the Company and Independent Shareholders as a whole and the terms of the Restructuring Proposal and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions in relation to the Restructuring Proposal and the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,

For and on behalf of  
**Tanrich Capital Limited**  
**Li Wai Kuen, Clara**  
*Director*

For and on behalf of  
**Altus Capital Limited**  
**Arnold Ip**  
*Executive Director*

**Sean Pey, Chang**  
*Executive Director*

The following are the proposed terms of the scheme of arrangement (subject to amendment and modification).

**SCHEME ADMINISTRATORS AND SCHEME CREDITORS' COMMITTEES**

1. Mr. Derek K. Y. Lai and Mr. Joseph K. C. Lo are appointed as initial Scheme Administrators of both the Hong Kong Scheme and the Bermuda Scheme, in each case with power to act jointly and severally. If at any time either Scheme Administrator wishes to resign or is incapable of acting, he shall be replaced as Scheme Administrator by such other Person as the Scheme Creditors' Committees shall nominate or, if there are no such Scheme Creditors' Committees, as shall be nominated by the president for the time being of the Hong Kong Institute of Certified Public Accountants. Any Scheme Administrator so appointed shall, as soon as practicable following his appointment, give written notice of his appointment to all Scheme Creditors.
2. The Scheme Administrators shall be entitled to exercise such rights and powers as are necessary or desirable to give effect to the provisions of the Schemes and matters incidental thereto, and shall, without limitation, also be vested with, in the case of the Hong Kong Scheme, powers equivalent to those vested in a liquidator in a winding up of a company by the Hong Kong Court and, in the case of the Bermuda Scheme, powers equivalent to those vested in a liquidator in a winding up of a company by the Bermuda Court, save that, in each Scheme, (except for the appointment of a solicitor in the relevant jurisdiction to assist them in the performance of their duties which the Scheme Administrators may appoint in their absolute discretion deemed necessary), any power which would be exercisable by such a liquidator only with the sanction of the relevant Court or of a committee of inspection shall be exercisable with the sanction of the relevant Scheme Creditors' Committees (which sanction shall not be unreasonably withheld or delayed).
3. A Scheme Creditors' Committee shall be formed in respect of each Scheme as soon as practicable after the Effective Date. The Scheme Creditors' Committees shall each comprise of three members. The members shall be common to each Scheme Creditors' Committee, and a decision by one Scheme Creditors' Committee shall be taken to be a decision of the other Scheme Creditors' Committee. The initial members will be appointed by the Scheme Administrators after considering the views of creditors at the Scheme Meetings. The members will be appointed by the Creditors at the Scheme Meetings. The quorum for each meeting of the Scheme Creditors' Committee shall be two members present in person or by proxy. Any decision shall be by a majority of those present: in the case of an equality of votes the member with the highest value Admitted Claim shall hold a casting vote.
4. The Scheme Creditors' Committees shall act in the best interests of the general body of Scheme Creditors.

5. Each corporate member of the Scheme Creditors' Committee shall be represented by a Nominated Representative. The relevant Scheme Creditor shall notify the Scheme Administrators in writing as soon as practicable after any change of the identity of any Nominated Representative.
6. The Scheme Creditors' Committees shall receive verbal or written reports from and meet with the Scheme Administrators as often as deemed necessary by the Scheme Administrators and shall consider requests, if any, by the Scheme Administrators for approval for matters concerning administration of the Schemes, which approval may not be unreasonably withheld or delayed. The Scheme Administrators shall provide to the Scheme Creditors' Committees such relevant information as they may from time to time reasonably require in relation to any decision that the Scheme Creditors' Committees are required to make.
7. Each member of the Scheme Creditors' Committees (in its capacity as such):
  - (a) shall have only those duties and responsibilities expressly specified in the Schemes and shall not have any implied duties or responsibilities whatsoever; and
  - (b) may refrain from doing anything which would or might in its opinion be contrary to any law, directive or regulation of any applicable jurisdiction and may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation and such Scheme Creditors' Committees member shall not be liable for any loss occasioned thereby.
8. Resignation procedures for a member of the Scheme Creditors' Committees are as follows:
  - (a) A member of the Scheme Creditors' Committees may give 7 days' prior notice in writing at any time to the Scheme Administrators that it wishes to resign from the Scheme Creditors' Committees.
  - (b) Upon receipt of such notice of intended resignation, the Scheme Administrators with the prior consent of the Creditors shall in writing appoint another Scheme Creditor to be the successor to the resigning Scheme Creditor.
  - (c) The resignation of any member of the Scheme Creditors' Committees and the appointment of any successor member will become effective only upon the successor member notifying the Scheme Administrators that it accepts its appointment.
  - (d) Any Scheme Creditor so appointed to the Scheme Creditors' Committees shall, from the date of appointment, be bound by all of the duties and responsibilities of the Scheme Creditors' Committees expressly specified in the Schemes.

- (e) The resigning member shall, at its own costs, make available to the successor member such documents and records and provide such assistance as the successor member may reasonably request for the purposes of performing its functions as a member of the Scheme Creditors' Committees.

**CONSTITUTION OF SCHEME FUNDS AND TRANSFER OF OTHER ASSETS TO SCHEME ADMINISTRATORS**

- 9. The Scheme Administrators shall on, or as soon as reasonably practicable after, the Effective Date open the Scheme Trust Account and shall deposit all monies paid to or realized by them in their capacity as Scheme Administrators into the Scheme Trust Account.
- 10. The Company shall have no liability for the Restructuring Costs. All property received by the Scheme Administrators in their capacity as such, including the Scheme Funds, shall be held on trust to pay the Petition Costs, Preferential Claims (if any), Scheme Administration Costs and Dividends.
- 11. Notwithstanding Clause 2 hereinabove, the Scheme Administrators shall have absolute discretion as regards administration of those assets transferred to them pursuant to Clause 13(b) hereinbelow consistent with the available funding for Scheme Administration Costs which in the absence of additional funding shall be HK\$1,000,000.00 as referred to in Clause 31(c) hereinbelow.
- 12. Closing is conditional on, among other things the clearance in principle by the Stock Exchange of an announcement to be issued by the Company (in the form approved by the Stock Exchange and (if applicable) the SFC) confirming the fulfillments of all conditions precedent to the Restructuring Agreement and the date on which resumption of trading in the Adjusted Shares will occur, which shall not be later than two Business Days after publication of such announcement.
- 13. On the Closing Date, the Company shall:
  - (a) transfer the Subscription Scheme Proceeds to the Scheme Trust Account; and
  - (b) transfer all of its interests in the Scheme Bermuda Holdco, which shall hold certain new shareholder companies which in turn shall hold the Group Companies listed in Column 1 of Schedule A, to a nominee of the Scheme Administrators.

**DISCHARGE AND WAIVER OF CLAIMS**

- 14. With effect on and from the Closing Date all Scheme Creditors' Claims are discharged and waived. For the avoidance of doubt, neither the Company nor the Investor shall be concerned as to the distribution of the Subscription Scheme Proceeds and Scheme Funds to the Scheme Creditors pursuant to the Schemes.

**DETERMINATION OF CLAIMS**

15. On or as soon as practicable after the Effective Date, the Scheme Administrators will issue notices to all Scheme Creditors of whom the Company has knowledge and will by advertisement (in one English language newspaper and one Chinese language newspaper in Hong Kong and one English language newspaper in Bermuda) notify Scheme Creditors of the Cut-Off Date, being the last day by which Scheme Creditors must have delivered their Notices of Claim to the Scheme Administrators. A Notice of Claim duly completed by a Person claiming to be a Scheme Creditor and duly received by the Provisional Liquidators shall be deemed to be a Notice of Claim duly delivered to the Scheme Administrators, provided that if such Person delivers to the Scheme Administrators a further Notice of Claim on or before the Cut-Off Date, such further Notice of Claim shall supersede any prior Notice of Claim.
16. Each Person claiming to be a Scheme Creditor shall deliver to the Scheme Administrators at its own expense:
  - (a) no later than 5:00 p.m. Hong Kong time on the Cut-Off Date, a Notice of Claim in respect of the amount of the indebtedness claimed to be owed to it by the Company, calculated as to principal up to Effective Date and calculated as to interest, if any, up to Effective Date, completed substantially in accordance with the instructions printed on such Notice of Claim; and
  - (b) such other documents or other evidence as the Scheme Administrators may consider necessary for the purpose of substantiating its Claim.

Any Notice of Claim delivered to the Scheme Administrators in compliance with this Clause shall supersede any prior Notice of Claim.

17. In respect of Secured Scheme Creditors:
  - (a) Unless a Secured Scheme Creditor has agreed an appraised value for its Security Interest pursuant to sub-clause 17(b) below or released its Security Interest pursuant to sub-clause (c) below, then that Secured Scheme Creditor's Claim will be treated as an Unadmitted Claim for which appropriate reserves will be made by the Scheme Administrators out of the Scheme Funds, pending the Secured Scheme Creditor notifying the Scheme Administrators that it has realised its Security Interest and providing details of its unsecured Claim (if any), or, if earlier, releasing or agreeing with the Scheme Administrators a value for its Security Interest.
  - (b) A Secured Scheme Creditor may agree with the Scheme Administrators an appraised value for its Security Interest for the purposes of determining the amount of its Admitted Claim, which agreed value shall be deducted from its Claim for the purposes of determining the amount of its Admitted Claim.

- (c) A Secured Scheme Creditor may release its Security Interest in which case no deduction on account of its Security Interest shall be made from its Claim for the purpose of calculating the amount of its Admitted Claim. The Security Interest so released, in so far as being the Company's property, shall become Schemes assets and to be applied in accordance with Clause 10.
- (d) A Secured Scheme Creditor shall pay to the Scheme Administrators any amount received in excess of its Claim from the net proceeds of realization of its Security Interest and distributions received by it under the Schemes.
18. Each Scheme Creditor will:
- (a) in completing its Notice of Claim take into account any amount received from the primary obligor or any surety or co-surety prior to the date on which it submits or is deemed to have submitted its Notice of Claim pursuant to Clause 16 above; and
- (b) pay to the Scheme Administrators any amounts received from the primary obligor or any surety or co-surety if and to the extent the aggregate value of the Scheme Creditor's receipts under the Schemes and from the primary obligor or any surety or co-surety exceed the total amount owed to the Scheme Creditor by the primary obligor.
19. The Scheme Administrators shall examine the Notice of Claim and the related evidence and shall as soon as practicable decide whether to admit or reject the Claim, in whole or in part, or require further evidence in support of it. The Scheme Administrators will send to each Scheme Creditor notice in writing of their decision relating to that Scheme Creditor's Claim. Where the decision is to reject the Claim in whole or in part, the Scheme Administrators' notice of decision is to be accompanied by written reasons for the decision.
20. Any amount of an Admitted Claim which is in a currency other than Hong Kong Dollars shall for all purposes be converted to Hong Kong Dollars at the rate for the purchase of the relevant currency offered by The Hongkong and Shanghai Banking Corporation Limited at the close of business on the Effective Date or, in the event of manifest error or non-publication, such other offered rate for the purchase of the relevant currency of any licensed bank in Hong Kong as the Scheme Administrators shall select and shall, for the purpose of the Schemes, be denominated in Hong Kong Dollars.
21. Interest on any Claim which is payable at a certain time or otherwise shall not be admitted as part of the Admitted Claim unless arising out of a contract or judgment and only for a period ending on or before the Effective Date.
22. Where there have been mutual credits, mutual debts or other mutual dealings between the Company and any Scheme Creditor before the Effective Date, an account shall be taken of what is due from each party to the other in respect of such mutual dealings and the sums due from one party shall be set off against the sums due from the other party and only the balance of the account, if any, shall be admitted.

23. If a Scheme Creditor is dissatisfied with the Scheme Administrators' decision in respect of his Notice of Claim:
- (a) Such Scheme Creditor may within ten Business Days from the date of service of the notice of the Scheme Administrators' decision as provided in Clause 19 apply in writing to the Adjudicator for a review of such decision. The Scheme Creditor must pay to the Adjudicator on account of the Adjudicator's costs the sum of HK\$50,000 (or such smaller amount as the Scheme Administrators and the Scheme Creditor may agree), failing which the Scheme Creditor's application for review will be invalid.
  - (b) The Adjudicator, acting as an expert and not as an arbitrator, shall adopt such procedures as the Adjudicator may think fit, to enable him to decide whether the decision should be upheld, reversed or varied. The Adjudicator will use reasonable endeavours to deliver notice of his decision to the relevant Scheme Creditor and the Scheme Administrators as soon as practicable after the Scheme Creditor's application for review. The Adjudicator's decision shall be final, conclusive and binding on the Scheme Administrators and the Scheme Creditor and no further appeal could be made to the court or tribunal.
  - (c) If no valid application for a review of the Scheme Administrators' decision is served on the Adjudicator by the Scheme Creditor to whose Claim that decision relates within ten Business Days of service of notice of the Scheme Administrators' decision, that decision will be binding on the Scheme Creditor.
  - (d) Subject to sub-clause (e) below, the amount by which the Adjudicator's costs in respect of any review exceed the payment on account referred to in sub-clause (a) above shall be paid out of the Scheme Administration Costs subject to approval under Clause 6.
  - (e) If the Adjudicator decides that the amount of the relevant Scheme Creditor's Claim does not exceed the amount determined by the Scheme Administrators by more than the greater of HK\$50,000 or 10% of the amount determined by the Scheme Administrators, the relevant Scheme Creditor shall pay to the Scheme Administrators (in addition to the amount payable under sub-clause (a)) the amount referred to in sub-clause (d) above. To the extent that a Scheme Creditor fails to pay any amount(s) due under this sub-clause and/or sub-clause (a) the Scheme Administrators are entitled to deduct such amount(s) from any Cash Dividends payable to the relevant Scheme Creditor.
  - (f) If the Adjudicator decides the amount of the relevant Scheme Creditor's Claim exceeds the amount determined by the Scheme Administrators by more than the greater of HK\$50,000 or 10% of the amount determined by the Scheme Administrators, the Scheme Administrators will pay to the relevant Scheme Creditor out of the Scheme Funds an amount equal to the payment on account made by that Scheme Creditor under sub-clause (a) above.

24. A Notice of Claim may be withdrawn or varied by the respective Scheme Creditors at any time with the prior written agreement of the Scheme Administrators.
25. The Scheme Administrators will not consider Notices of Claim received after 5:00 p.m. Hong Kong time on the Cut-Off Date.
26. For the avoidance of doubt, any Claim or part of a Claim of a Scheme Creditor which is not the subject of a Notice of Claim received on or prior to the Cut-Off Date or which is rejected by the Scheme Administrators or the Adjudicator, as the case may be, shall be treated (and, if rejected in part, as to that part only) for all purposes as having been wholly and irrevocably discharged and released and no Scheme Creditor shall be entitled to payment thereof or make any claim or initiate any proceedings against the Company in relation thereto.

#### **BAR TO FURTHER PROCEEDINGS**

27. As and from the Closing Date the Schemes bar the Scheme Creditors and the Secured Scheme Creditors from taking any action or proceedings against the Company, its property or assets or for the winding-up of the Company or for the purposes of exercising any right of set-off in respect of any claim(s) against the Company.

#### **CALCULATION OF DIVIDENDS**

28. The Scheme Administrators shall calculate the total Dividends which would ultimately be distributed by the Company to the Scheme Creditors with an Admitted Claim in the Group Liquidation Scenario.
29. The Scheme Administrators shall pay a Dividend to each Scheme Creditor with an Admitted Claim, calculated in accordance with the Dividends which such Scheme Creditors would receive under the Group Liquidation Scenario.

#### **DISTRIBUTION OF SCHEME FUNDS**

30. The Scheme Funds shall be used solely for the purposes of the Schemes.
31. The Scheme Funds shall be applied in or towards payment of the following in the following order:
  - (a) first, the Petition Costs;
  - (b) secondly, Preferential Claims, if any;
  - (c) thirdly, the Scheme Administration Costs (which, together with the Petition Costs, in any event shall not exceed HK\$1,000,000.00); and
  - (d) thereafter, the balance shall be applied towards payment of Dividends to Scheme Creditors ranking pari passu and rateably amongst them in respect of their Admitted Claims as determined pursuant to Clause 33.

32. After payment of the Petition Costs and known Preferential Claim (if any), the Scheme Administrators shall reserve in the Scheme Trust Account such sum as they estimate to be sufficient for the payment of all unsubstantiated Preferential Claims and all Scheme Administration Costs (including anticipated Scheme Administration Costs). As soon as practicable after the Closing Date, the Scheme Administrators shall determine the amount of Scheme Funds available for distribution, having regard to the reserve required for payment of unsubstantiated Preferential Claims, projected Scheme Administration Costs and the aggregate amount of Unadmitted Claims. On or as soon as practicable after the First Distribution Calculation Date, the Scheme Administrators may, after consulting with the Scheme Creditors' Committees, pay interim Dividends to Scheme Creditors with Admitted Claims in amounts determined in accordance with Clause 33.
33. The Scheme Administrators may set an interim Dividend at a percentage as will enable them to pay the interim Dividend to those Scheme Creditors with Admitted Claims and at the same time reserve within the Scheme Funds an amount sufficient to pay the same percentage Dividend on the full amount of any Unadmitted Claims. As soon as practicable after an Unadmitted Claim becomes an Admitted Claim, the Scheme Administrators shall distribute to the relevant Scheme Creditor a Dividend in respect of that Admitted Claim equal to the same percentage Dividends paid to all other Scheme Creditors with Admitted Claims.
34. The Scheme Administrators shall review from time to time what Scheme Funds are available to pay Dividends and will pay further Dividends, after full payment of Scheme Administration Costs (up to the limit referred to in Clause 31(c)), from the remaining Scheme Funds whenever in their opinion it is efficient to do so.

#### **PAYMENT AND DELIVERY OF DIVIDENDS**

35. All Dividends payable to the Scheme Creditors shall be paid by cheque drawn or made in favour of the relevant Scheme Creditor and delivered or sent by post (or by ordinary airmail if posted to an address outside Hong Kong) or in such other manner as the Scheme Administrators in their absolute discretion deemed appropriate.
36. The posting or delivery of a cheque under Clause 35 shall be at the risk of the Scheme Creditor and shall represent a good discharge to the Scheme Administrators.
37. Neither the Company nor the Scheme Administrators shall be liable to a Scheme Creditor for any loss in transmission of a cheque drawn and sent in accordance with Clause 35. If a cheque in favour of a Scheme Creditor which is despatched in accordance with Clause 35 is not encashed within six months of the date of issue of the cheque, the Scheme Creditor's entitlement under the Schemes in the amount of such cheque shall cease and determine and the amount thereof shall become Scheme Funds.

**NOTICE OF FINAL DISTRIBUTION**

38. The Scheme Administrators may, with the consent of the Scheme Creditors' Committees, give notice to Scheme Creditors that they are satisfied that the Cash Dividend has been distributed to the Scheme Creditors and that there is no prospect of any further distribution to Scheme Creditors under the Schemes and that the Schemes are terminated from the date of giving such notice. The duties and responsibilities of the Scheme Administrators and the members of the Scheme Creditors' Committees under the Schemes will cease upon the giving of such notice.

**LIABILITY AND INDEMNITY**

39. None of the Provisional Liquidators and their representatives, partners, staff, agents and advisers (including legal advisers) shall have or incur any liability for actions taken or omitted to be taken in good faith under, or in connection with the negotiation and preparation of, the Schemes or otherwise.
40. None of the Scheme Administrators and their representatives, partners, staff agents and advisers (including legal advisers) shall incur any personal liability under the terms of the Schemes or otherwise.
41. No Scheme Creditor nor the Company shall be entitled to challenge the validity of any act done or omitted to be done in good faith by the Scheme Administrators or by any member of the Scheme Creditors' Committees or their Nominated Representatives in accordance with the provisions of the Schemes or the exercise by any such Person in good faith of any power conferred upon it or him for the purposes of the Schemes, and no such Person shall be liable for any loss of any kind whatsoever unless such loss is attributable to its or his own wilful default, fraud, dishonesty or wilful breach of duty or trust.
42. The Scheme Administrator shall be indemnified out of the Scheme Funds only against all Scheme Administration Costs (which together with the Petition Costs, shall not exceed HK\$1,000,000.00 in any event) and all other expenses, claims, proceedings, expenses, losses, damages and liabilities of any description which may be incurred or suffered by the Scheme Administrators in good faith and commensurate with the standard of a reasonable Scheme Administrator in the performance of their role. The Company shall have no obligations or liabilities whatsoever under the Schemes other than the performance of its obligations under Clause 13.

**MODIFICATION OF SCHEMES**

43. Prior to the Closing Date, the Company, acting by the Provisional Liquidators, may consent, for and on behalf of all parties concerned, to any modification or addition to the Schemes or any condition which the Courts may see fit to approve or impose and agreed by the Investor in writing whose agreement shall not be unreasonably withheld.

44. On or after the Closing Date, the Scheme Administrators may at any time, if they consider it expedient and in the interests of the Scheme Creditors to do so and subject to consultation with and the consent of the Scheme Creditors' Committee, apply to the Courts for the purpose of modifying the provisions of the Schemes or obtaining directions from the Courts on how to deal with any matters or disputes which may arise in respect of the administration of the Schemes. If the Courts approve a modification to the Schemes or give a direction in relation to any matter or dispute which may arise in respect of the Schemes, it shall be binding on the Company and the Scheme Creditors provided that no further obligations or liabilities should be imposed on the Company and that the Company should not be adversely affected by reason of such modification or direction.

#### GENERAL

45. The rights of the Scheme Creditors under the Schemes shall be assignable, subject to the Scheme Administrators receiving an administration fee of HK\$1,000 per assignment, written notice of the assignment and such other documentation as may be reasonably be necessary in the opinion of the Scheme Administrators to satisfy them of the validity of the assignment.
46. Save as otherwise provided in these Schemes:
- (a) Any notice or demand shall be sufficiently given by posting the same by ordinary post (or airmail if outside Hong Kong) or by transmission by fax or by leaving the same at:
    - (i) in the case of the Company, c/o Deloitte Touche Tohmatsu, 35th Floor, One Pacific Place, 88 Queensway, Hong Kong (fax number: (852) 2850 8362) (Attention: Mr. Derek K. Y. Lai and Mr. Joseph K. C. Lo);
    - (ii) the Scheme Administrators, c/o Deloitte Touche Tohmatsu, 35th Floor, One Pacific Place, 88 Queensway, Hong Kong (fax number: (852) 2850 8362 ) (Attention: Mr. Derek K. Y. Lai and Mr. Joseph K. C. Lo);
    - (iii) in the case of the Adjudicator, c/o Deloitte Touche Tohmatsu, 35th Floor, One Pacific Place, 88 Queensway, Hong Kong (fax number: (852) 2850 8362) (Attention: Mr. Derek K. Y. Lai and Mr. Joseph K. C. Lo; and
    - (iv) in the case of any Scheme Creditor, the Scheme Creditor's last known address or correspondence address in Hong Kong or fax number as set out in its Notice of Claim for purpose of Dividend.
  - (b) If such notice or demand is posted, it shall be deemed to have been received by the addressee 48 hours (or 10 days, if sent outside Hong Kong) after the same shall have been posted, and proof that an envelope containing such notice was properly addressed, prepaid and posted shall be sufficient evidence that such notice or demand has been duly served or given. If such notice or demand is delivered by hand, it shall be deemed to have been received by the addressee

when the same is left at the relevant address, and proof that the same was so left shall be sufficient evidence that such notice or demand has been duly served or given. If such notice or demand is transmitted by fax, it shall be deemed to have been received at the time of transmission, save that if such transmission is effected otherwise than between 9:00 a.m. and 4:00 p.m. on a business day in the territory in which the Person to whom such transmission is effected is located it will be deemed to be received at 9:00 a.m. on the next business day, and proof of such transmission to the correct fax number (by way of transmission confirmation or otherwise) shall be sufficient evidence that such notice or demand has been duly served or given.

47. If any administrative provision of the Schemes is held to be illegal, invalid or unenforceable under Hong Kong laws or Bermuda laws then the offending provision shall (insofar as it is illegal, invalid or unenforceable) be deemed to have no effect and will not affect or impair the remaining provisions of the Schemes.
48. The Bermuda Scheme shall be subject to the laws of Bermuda and the Scheme Creditors submit to the non-exclusive jurisdiction of the Bermuda Court in respect thereof.
49. The Hong Kong Scheme shall be subject to the laws of Hong Kong and the Scheme Creditors submit to the non-exclusive jurisdiction of the Hong Kong Court in respect thereof.
50. In these Schemes:
  - (a) references to clauses are references to clauses of these Schemes;
  - (b) references to a statute or statutory provision include the same as amended or re-enacted;
  - (c) the singular includes the plural and vice versa and the masculine and neuter include each other and the feminine; and
  - (d) headings to clauses are for ease of reference only and shall not affect the interpretation of these Schemes.
51. In these Schemes the following expressions have the meaning respectively set opposite them unless the context otherwise requires:

“Additional Shares”	means 352,750,000 new Adjusted Shares to be allotted and issued to the Investor, credited as fully paid, pursuant to the Subscription Agreement;
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“Adjudicator”	means person with experience in the adjudication of creditors’ claims in a liquidation as the Scheme Administrators shall nominate on the instructions of the Scheme Creditors’ Committees;
“Adjusted Shares”	means issued and unissued new ordinary shares of the Company with a nominal or par value of HK\$0.01 each after the capital reorganisation pursuant to the Restructuring Proposal;
“Admitted Claim”	means any Claim of a Scheme Creditor which has been admitted in accordance with the Schemes;
“Bermuda Court”	means the Supreme Court of Bermuda;
“Bermuda Scheme”	means the proposed scheme of arrangement pursuant to Section 99 of the Bermuda Companies Act made between the Company and the Scheme Creditors the terms of which are contained in (and subject to modification pursuant to) these Schemes;
“Business Day”	means a day (other than a Saturday or Sunday) on which banks are open for business in Hong Kong;
“Cash Dividend”	means the amount of cash available to be paid to Scheme Creditors as Dividends from the Scheme Funds after deducting 1) the Preferential Claims and 2) the Petition Costs and Scheme Administration Costs which in any event shall not exceed HK\$1,000,000.00 in aggregate;
“Claim”	means any debt, liability or obligation of the Company as at the Effective Date, whether known or unknown, certain or contingent, liquidated or unliquidated, including without limitation: any debt or liability to pay money or money’s worth; any liability under any statute or enactment; any liability for breach of trust; any liability in contract, tort or bailment; and any liability arising out of an obligation to make restitution, together with all interest on such debt, obligation or liability as would be admissible to prove in a compulsory winding-up of the Company under the Hong Kong Companies Ordinance or the Bermuda Companies Act;

“Closing”	means the closing of the transactions contemplated by the Restructuring Agreement;
“Closing Date”	means the Business Day on which the Provisional Liquidators issue the Closing Notice pursuant to the Restructuring Agreement;
“Closing Notice”	means the written closing notice to be given by the Provisional Liquidators to the Investor pursuant to the Restructuring Agreement;
“Companies Act”	means the Companies Act 1981 of Bermuda as amended from time to time;
“Companies Ordinance”	means Chapter 32 of the Laws of Hong Kong as amended from time to time;
“Company”	means Great Wall Cybertech Limited (Provisional Liquidators Appointed), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“Costs Escrow Agreement”	means the escrow and exclusivity agreement dated 4th June 2004 as made between, among other parties, the Investors, the Provisional Liquidators as supplemented by three supplemental agreements dated 29th October 2004, 4th March 2005 and 13th April 2006 respectively;
“Courts”	means collectively, the Bermuda Court and the Hong Kong Court;
“Cut-Off Date”	means the date which is 40 days after the date of publication of the advertisements referred to in Clause 15 of the Schemes;
“Directors”	means directors of the Company;
“Dividend”	means the amount payable to a Scheme Creditor expressed as a percentage of an Admitted Claim;

“Effective Date”	means the date on which both Schemes are effective, being the latest date on which an office copy of the order of the Bermuda Court sanctioning the Bermuda Scheme is delivered to the Registrar of Companies in Bermuda for registration and an office copy of an order of the Hong Kong Court sanctioning the Hong Kong Scheme is delivered to the Registrar of Companies in Hong Kong for registration;
“First Distribution Calculation Date”	means the date (after the Cut-Off Date), which is three Business Days before the date on which the Scheme Administrators intend to pay the first Dividend to Scheme Creditors;
“First Distribution Date”	means the date on which the Scheme Administrators intend to pay the first Dividend to Scheme Creditors;
“Group”	means the Company and its Subsidiaries prior to the Closing Date;
“Group Company”	means a company in the Group;
“GW Infrastructure”	Great Wall Infrastructure Limited, a company incorporated in the BVI with limited liability and a direct subsidiary of Fortune Hand Industries Limited;
“HK\$” or “Hong Kong Dollars”	means the lawful currency for the time being of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Court”	means the High Court of Hong Kong;
“Hong Kong Scheme”	means the proposed scheme of arrangement pursuant to Section 166 of the Companies Ordinance between the Company and the Scheme Creditors the terms of which are contained in (and subject to modification pursuant to) these Schemes;
“Innovision”	Innovision Enterprises Limited, a company incorporated in Hong Kong with limited liability and a direct subsidiary of GW Infrastructure;

“Investor”	means Climax Associates Limited, a company incorporated in the British Virgin Islands with limited liability;
“Group Liquidation Scenario”	means a hypothetical winding-up and distribution of assets of every Group Company on the Effective Date in which the only assets of the Company is the Cash Dividend;
“Nominated Representative”	means an employee or a representative of a corporate member of the Schemes Creditors’ Committee nominated by written notice to the Scheme Administrators;
“Notice of Claim”	means a claim in writing by any person claiming to be a Scheme Creditor substantially in the form set out at Appendix 3 to the Scheme Explanatory Document;
“Person”	means an individual, partnership, company, body corporate, joint stock company, trust, unincorporated association or body of persons (including a partnership or consortium), joint venture or other entity, or a government or any political subdivision or agency thereof;
“Petition”	means the petition to wind-up the Company filed by the Petitioning Creditor in Companies (Winding-Up) No.341 of 2003 of the Hong Kong Court;
“Petition Costs”	means the costs of the Petitioning Creditor in relation to the Petition;
“Petitioning Creditor”	means The Bank of East Asia, Limited;
“Preferential Claim Amount”	means the amount of a Preferential Claim;
“Preferential Claim”	means a Claim which would be treated as a preferential claim and have priority in a winding-up commenced on 24th March 2003 in Hong Kong pursuant to section 265 of the Hong Kong Companies Ordinance and/or would have priority in Bermuda pursuant to section 236 of the Bermuda Companies Act and the relevant section to the same effect of the Employment Act 2000 of Bermuda;

“Provisional Liquidators”	means Mr. Derek K. Y. Lai and Mr. Joseph K. C. Lo of Deloitte Touche Tohmatsu of 35th Floor, One Pacific Place, 88 Queensway, Hong Kong, the joint and several provisional liquidators of the Company appointed by the Hong Kong Court;
“Restructuring Agreement”	means the agreement dated 13th April 2006 between the Company, the Provisional Liquidators and the Investor in relation to the Restructuring Proposal;
“Restructuring Costs”	means any costs, charges, expenses and disbursements incurred before the Effective Date in connection with the negotiation, preparation and implementation of the Restructuring Proposal or otherwise in the course of their respective appointments or engagements, including without limitation the fees and expenses of the advisers to the Company and/or Provisional Liquidators;
“Restructuring Proposal”	means the transactions described in the Restructuring Agreement, including the Schemes;
“Scheme Administrators”	means Mr. Derek K. Y. Lai and Mr. Joseph K. C. Lo jointly and severally or their successors appointed pursuant to Clause 1 in relation to the Hong Kong Scheme and the Bermuda Scheme;
“Scheme Administration Costs”	means costs, charges, expenses and disbursements incurred on or after the Effective Date in connection with the administration and implementation of the Schemes including the fees and remuneration of the Scheme Administrators and the Adjudicator;
“Scheme Bermuda Holdco”	means a company incorporated in Bermuda to hold certain new shareholder companies which in turn shall hold the Group Companies listed in Column 1 of Schedule A;

“Scheme Creditor”	means any Person, other than 1) GW Infrastructure; 2) Innovision which have made advances to the Company for the Company relating to the implementation of the Restructuring Proposal; and 3) Shareholder Creditors, with the benefit of a Claim against the Company that arose on or before the Effective Date and Scheme Creditors shall be construed accordingly;
“Scheme Creditors’ Committees”	means the committees to be formed pursuant to the Schemes;
“Scheme Explanatory Document”	means the document to be issued to the Scheme Creditors comprising inter alia an explanatory statement and proposed schemes of arrangement (under section 99 of the Bermuda Companies Act and section 166 of the Hong Kong Companies Ordinance) for the creditors of the Company;
“Scheme Funds”	means all funds from time to time credited to the Scheme Trust Account, including any interest thereon pursuant to this document which includes the Subscription Scheme Proceeds;
“Scheme Meetings”	means the meetings of the Scheme Creditors, for such number of appropriate classes to be convened at the direction of the Courts for the purpose of considering and, if thought fit, approving the Schemes and at the same date;
“Scheme Trust Account”	means an interest-bearing bank account controlled by the Scheme Administrators;
“Schemes”	means collectively, the Bermuda Scheme and the Hong Kong Scheme;
“Secured Scheme Creditor”	means a creditor of the Company with the benefit of a Security Interest in respect of its Claim;
“Security Interest”	means any mortgage, pledge, lien, charge, assignment, hypothecation, encumbrance or security interest or any other agreement or arrangement having the effect of conferring security whether or not such security interest is the property of the Company or otherwise including for the avoidance of doubt, any proceeds of realization of the above;

“Shareholder Creditors”	means shareholders of the Company who only have claim(s) against the Company for dividends declared by the Company to the extent of such dividends only and each a Shareholder Creditor;
“Subscription Agreement”	means an agreement dated 13 April 2006 entered into by the Investor, the Company and the Provisional Liquidators, setting out the terms and conditions of the Investor’s subscription of the Subscription Shares and the allotment and issue of the Additional Shares;
“Subscription Scheme Proceeds”	means HK\$21,500,000.00 in cash (to be paid out of the subscription price to be paid by the Investor to the Company pursuant to the Subscription Agreement);
“Subscription Shares”	means 2,075,000,000 Adjusted Shares to be issued pursuant to the Subscription Agreement;
“Subsidiary”	means in relation to any Person at any time: <ul style="list-style-type: none"><li>(i) any company, body corporate or joint stock company of which more than 50 per cent of the issued and outstanding capital stock having ordinary voting power (irrespective of whether at the time capital stock of any other class or classes of that corporation shall or might have voting power upon the occurrence of any contingency);</li><li>(ii) any partnership or joint venture of which more than 50 per cent of the interest in the capital or profit of such partnership or joint venture;</li><li>(iii) any trust or estate of which more than 50 per cent of the beneficial interest in such trust or estate; or</li><li>(iv) any company, the majority of the composition of the board of directors of which,</li></ul> is at the time directly or indirectly owned or controlled by that Person, by that Person and one or more of its other Subsidiaries or by one or more of that Person’s other Subsidiaries;

“Unadmitted Claim”

means any Claim in a Notice of Claim that has not been either admitted or rejected by the Scheme Administrators.

**SCHEDULE A**

**Name of Company**

**Place of Incorporation**

Great Wall Electronics Holding Limited

Hong Kong

Great Wall Electronics Group Limited

the British Virgin Islands

## 1. SHARE CAPITAL

The authorised and issued share capitals of the Company as at the Latest Practicable Date were, and following Completion will be, as follows:

HK\$

*Authorised:*

<u>25,000,000,000</u>	Shares	<u>250,000,000</u>
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*Issued and fully paid as at the Latest Practicable Date:*

<u>8,076,257,020</u>	Shares	<u>80,762,570.20</u>
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*Issued and fully paid upon Completion:*

80,762,570	Adjusted Shares	807,625.70
2,075,000,000	Subscription Shares	20,750,000.00
352,750,000	Additional Shares	3,527,500.00
145,372,626	Offer Shares	1,453,726.26
<u>374,627,374</u>	Placing Shares	<u>3,746,273.74</u>
<u>3,028,512,570</u>		<u>30,285,127.50</u>

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and capital. All Adjusted Shares to be in issue following Completion will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

Under the share option scheme adopted by the Company, the Directors may, at their discretion, invite employees of the Group, including Directors, to take up options to subscribe for shares of the Company. As at the Latest Practicable Date, neither the Company nor any member of the Group has any outstanding options, warrants or other securities convertible or exchangeable into Shares, and save and except for the share option scheme, no other share or loan capital of the Company had been put under option or agreed conditionally or unconditionally to be put under option and no other conversion right affecting the Shares or other derivatives in respect of securities of the Company which are being offered for or which carry voting rights had been issued or granted or agreed conditionally or unconditionally to be issued or granted by the Company.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

## 2. THREE YEARS FINANCIAL SUMMARY

The following information has been extracted from the audited consolidated accounts of the Group for each of the three years ended 31st December, 2005.

**Consolidated profit and loss account**

<b>Results</b>	<b>Year ended 31st December</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	513,610	119,677	59,070
Cost of sales	<u>(498,221)</u>	<u>(117,147)</u>	<u>(77,374)</u>
Gross profit (loss)	15,389	2,530	(18,304)
Other revenue	2,139	–	475
Selling and distribution costs	(236)	(202)	(501)
Administrative expenses	<u>(6,944)</u>	<u>(6,989)</u>	<u>(9,710)</u>
	10,348	(4,661)	(28,040)
Gain on deconsolidation of subsidiaries	–	205,229	–
Impairment losses for amounts due from subsidiaries not consolidated	(37)	(19)	(6,056)
Other operating expenses	<u>–</u>	<u>–</u>	<u>(642)</u>
Profit (loss) from operating activities	10,311	200,549	(34,738)
Finance costs	<u>(300)</u>	<u>(42)</u>	<u>(959)</u>
Profit (loss) before taxation	10,011	200,507	(35,697)
Taxation	<u>(1,810)</u>	<u>(57)</u>	<u>–</u>
Profit (loss) attributable to shareholders	<u><u>8,201</u></u>	<u><u>200,450</u></u>	<u><u>(35,697)</u></u>
Earnings (loss) per share			
Basic	<u><u>0.1 cents</u></u>	<u><u>2.4 cents</u></u>	<u><u>(0.4 cents)</u></u>
Diluted	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>

**Consolidated balance sheet***as at 31 December*

	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	<u>67</u>	<u>72</u>	<u>21,114</u>
<b>CURRENT ASSETS</b>			
Interests in subsidiaries not consolidated	–	–	–
Inventories	–	–	16,889
Trade receivables	7,930	1,080	4,450
Prepayments, deposits and other receivables	5,926	221	4,829
Cash and bank balances	<u>59</u>	<u>1,159</u>	<u>755</u>
	<u>13,915</u>	<u>2,460</u>	<u>26,923</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	2,791	–	4,659
Amounts due to subsidiaries not consolidated	7,885	7,696	219,752
Other payables and accruals	295,816	297,357	307,557
Current portion of finance lease obligations	–	–	3,334
Profits tax payable	<u>1,867</u>	<u>57</u>	<u>–</u>
	<u>308,359</u>	<u>305,110</u>	<u>535,302</u>
<b>NET CURRENT LIABILITIES</b>	<u>(294,444)</u>	<u>(302,650)</u>	<u>(508,379)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>(294,377)</u>	<u>(302,578)</u>	<u>(487,265)</u>
<b>NON-CURRENT LIABILITIES</b>			
Finance lease obligations	<u>–</u>	<u>–</u>	<u>(10,293)</u>
	<u>(294,377)</u>	<u>(302,578)</u>	<u>(497,558)</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	80,763	80,763	80,763
Reserves	<u>(375,140)</u>	<u>(383,341)</u>	<u>(578,321)</u>
	<u>(294,377)</u>	<u>(302,578)</u>	<u>(497,558)</u>

**3. AUDITORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2003**

Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31st December, 2003. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31st December, 2003.

**“TO THE SHAREHOLDERS OF GREAT WALL CYBERTECH LIMITED****(Provisional Liquidators Appointed)**

*(incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 16 to 40 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgement and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned 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 accounts are free from material misstatement. However, the evidence available to us was limited as set out below.

1. Our report on the accounts of the Group for the nine-months ended 31 December 2002 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit resulting from the inability of the Directors to locate sufficient

documentary information. It was explained by the Directors that due to liquidation of certain significant subsidiaries or their immediate holding companies and the seizure of the major assets and production facilities of certain significant subsidiaries under the court orders and most of the accounting personnel of the Group have left, the Directors have been unable to obtain sufficient documentary information. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Company and the Group as at 31 December 2002 and the results of the Group for the nine-month ended 31 December 2002 were fairly stated. Any adjustments to the opening balances as at 1 January 2003 would affect the net liabilities of the Company and the Group as at 31 December 2003 and the results of the Group for the year ended 31 December 2003. Also the comparative figures in respect of the net liabilities of the Company and of the Group as at 31 December 2002 and the results of the Group for the nine-months ended 31 December 2002 may not be comparable with the figures for the current year.

2. As explained by the Directors in note 3 (iii) to the accounts, the underlying books and records of a subsidiary, Great Wall France SA (“GW France”), have not been made available to the management of the Company as GW France went into liquidation pursuant to a France court order in 2004. Consequently, the operations of GW France so consolidated are based on its unaudited management accounts for the year ended 31 December 2003, since the unaudited management accounts are the only financial information made available to the Directors. We have been unable to obtain adequate audit evidence to satisfy ourselves as to the reliability of the amounts consolidated in respect of GW France during the year ended 31 December 2003 and the related balances as at 31 December 2003, as included in the consolidated accounts. In particular, we have been unable to perform any satisfactory audit procedures to substantiate the transactions entered into by GW France during the year ended 31 December 2003 and the assets and liabilities of GW France as at 31 December 2003; and to determine as to whether all appropriate disclosures have been included in the accounts in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and Statements of Standard Accounting Practice (“SSAPs”) issued by HKICPA. The results of GW France consolidated in the Group’s accounts and assets and liabilities as at 31 December 2003 are summarised in note 3(iii) to the accounts.
3. As explained by the Directors in note 3(ii) & (iv) to the accounts that due to liquidation of certain significant subsidiaries or their immediate holding companies and the seizure of the major assets and production facilities of certain significant subsidiaries under the court orders and most of the accounting personnel of the Group have left, the Directors have been unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and the Company as at 31 December 2003 and have formed the opinion as follows:
  - (a) As further explained by the Directors in note 3(iv)(a) to the accounts, the Directors were unable to obtain sufficient documentary evidence to support the Group’s and the Company’s other payables and accruals of approximately HK\$307,557,000 (2002: HK\$305,343,000) and

HK\$291,827,000 (2002: HK\$292,267,000) respectively, including the liabilities under indemnities given to subsidiaries not consolidated of approximately HK\$291,130,000 (2002: HK\$291,130,000). Accordingly the Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the accounts.

- (b) As further explained by the Directors in note 3(iv)(b) to the accounts, the Directors were unable to satisfy themselves as to whether the amounts due to subsidiaries not consolidated of approximately HK\$219,752,000 (2002: HK\$222,305,000) and HK\$5,983,000 (2002: HK\$8,086,000) included in the Group's and the Company's balance sheet respectively as at 31 December 2003 are fairly stated in the accounts.
- (c) As further explained by the Directors in note 3(iv)(c) to the accounts, the accounts have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Directors were unable to represent that all transactions entered into by the Company and its subsidiaries for the year ended 31 December 2003 have been properly reflected in the books and records and in the accounts. In this context, the Directors are also unable to represent as to the completeness and correctness of the disclosures of directors' and employees' emoluments in note 8, taxation in note 9 and inventories in note 17 to the accounts.
- (d) The Directors have formed the opinion that the amounts due from subsidiaries not consolidated to the Group of approximately HK\$1,584,758,000 (2002: HK\$1,578,703,000) and amounts due from subsidiaries to the Company of approximately HK\$1,285,670,000 (2002: HK\$1,285,670,000) included in the Group's and the Company's balance sheet respectively as at 31 December 2003 cannot be recovered. Accordingly, the Directors have made provisions against these amounts. However, we were unable to obtain sufficient information and explanations regarding the basis upon which the Directors have determined the amount of such provisions. Accordingly, we were unable to satisfy ourselves as to whether the provisions against these amounts were appropriate and the amounts due from these subsidiaries, after net of provisions, are fairly stated at the balance sheet date.

In addition, for the same reasons stated above, we have not been able to obtain all necessary information for us to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/ or disclosed as notes to the accounts of the Group as at 31 December 2003.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 2 and 3 above. Any adjustments to the above figures would as appropriate affect the net liabilities of the Company and the Group as at 31 December 2003 and the loss of the Group for the year ended 31 December 2003.

In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provide a reasonable basis for our opinion.

**FUNDAMENTAL UNCERTAINTY RELATED TO THE GOING CONCERN BASIS**

In forming our opinion, we have considered the adequacy of the disclosures in note 3(i) to the accounts concerning the adoption of the going concern basis on which the accounts have been prepared. As explained in note 3(i) to the accounts, the Company has experienced financial difficulties and is currently negotiating with a potential investor for the purpose of restructuring of the Company's indebtedness and revitalising the Group's financial position and business. The accounts have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures to be implemented and in process by the Group to improve the financial position and business of the Group. The accounts do not include any adjustments that would result from the failure of these measures. We consider that the appropriate disclosures have been made but, because of the significant uncertainties relating to the outcome of the restructuring proposal are so extreme, we are not able to determine whether the going concern basis used in preparing these accounts is appropriate. Accordingly, we have disclaimed our opinion.

**QUALIFICATION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT**

1. As detailed in note 15(a) to the accounts, the consolidated accounts do not include the results of certain subsidiaries, which are in the course of liquidation or their immediate holding companies are in the course of liquidation or their major assets and production facilities located in the People's Republic of China were seized under court orders as security for unsettled claims, up to the respective dates of appointment of liquidators as ordered by the courts. This treatment is not in accordance with the requirements of SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" issued by the HKICPA and the Hong Kong Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the accounts to give a true and fair view of the results and cash flows of the Group for the year ended 31 December 2003. It is not practicable to quantify the effect of the departure from this requirement.
2. As detailed in note 15(b) to the accounts, the accounts of the Group do not consolidate the accounts of certain subsidiaries. This treatment is not in accordance with the requirements of SSAP 32 and the Hong Kong Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the accounts to give a true and fair view of the state of affairs of the Group as at 31 December 2003 and of the results and cash flows of the Group for the year ended 31 December 2003. It is not practicable to quantify the effect of the departure from this requirement.
3. As explained in note 3(iv)(e) to the accounts, the accounts do not contain a cash flow statement. This is not in accordance with the requirements of SSAP 15 "Cash flow statements". In our opinion, information about the Group's cash flows is necessary for

a proper understanding of the Group's state of affairs and loss for the year ended 31 December 2003. It is not practicable to quantify the effect of the departure from this requirement.

### **QUALIFICATION ARISING FROM DISAGREEMENTS ABOUT THE EXTENT OF DISCLOSURES**

As explained in note 3(iv)(d) to the accounts, due to limited books and records available to the Directors, the following disclosures have not been made in the accounts:

1. Disclosures in respect of subsidiaries excluded from consolidation as required by SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries";
2. Disclosures in respect of finance lease obligations as required by SSAP 14 (Revised) "Leases";
3. Details of the share option scheme as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules");
4. Details of the retirement benefit scheme and the employee benefits as required by SSAP 34 "Employee benefits";
5. Segment information disclosures as required by SSAP 26 (Revised) "Segment Reporting" and the Listing Rules;
6. Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance;
7. Details of deferred taxation as required by SSAP12 (Revised) "Income Taxes";
8. Details of related party disclosures as required by SSAP 20 "Related Party Disclosures";
9. Details of the Group's credit risk and ageing of debtors and creditors as required by the Listing Rules; and
10. Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and relevant SSAPs.

### **DISCLAIMER OF OPINION**

Because of the significance of each of (i) the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report; (ii) the fundamental uncertainty relating to the going concern basis and (iii) the non-compliance of certain disclosure requirements as mentioned above, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of

the Group at 31 December 2003 and of the loss of the Group for the year then ended and as to whether the accounts have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- We have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and
- We were unable to determine whether proper books of accounts have been kept.

**TING HO KWAN & CHAN**  
*Certified Public Accountants*

Hong Kong, 5 November 2004”

**4. AUDITORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2004**

Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31st December, 2004. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31st December, 2004.

**“TO THE SHAREHOLDERS OF GREAT WALL CYBERTECH LIMITED****(Provisional Liquidators Appointed)**

*(incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 15 to 38 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgement and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned 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 accounts are free from material misstatement. However, the evidence available to us was limited because of the following:

1. Our report on the accounts of the Group for the year ended 31 December 2003 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit resulting from the inability of the Directors to locate sufficient

documentary information. It was explained by the Directors that due to liquidation of certain significant subsidiaries or their immediate holding companies and the seizure of the major assets and production facilities of certain significant subsidiaries under the court orders and most of the accounting personnel of the Group have left, the Directors have been unable to obtain sufficient documentary information for audit purposes. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Company and the Group as at 31 December 2003 and the results of the Group for the year ended 31 December 2003 were fairly stated. Any adjustments to the opening balances as at 1 January 2004 would affect the net liabilities of the Company and the Group as at 31 December 2004 and the results of the Group for the year ended 31 December 2004. Also the comparative figures in respect of the net liabilities of the Company and the Group as at 31 December 2003 and the results of the Group for the year ended 31 December 2003 may not be comparable with the figures for the current year.

As shown in note 3(ii)(a) to the accounts, the Directors confirmed that they had not received any further information concerning the progress and possible outcome of the liquidation or seizure of the assets of the aforesaid subsidiaries or their immediate holding companies since the date of approval of the last year's accounts. Any changes to the above status of liquidation or possible outcome from the seizure of assets of these subsidiaries or their immediate holding companies might have a consequential effect on the net liabilities of the Group and the Company as at 31 December 2004 and the results of the Group for the year ended 31 December 2004.

2. As explained by the Directors in note 3(ii) & (iii) to the accounts that due to liquidation of certain significant subsidiaries or their immediate holding companies and the seizure of the major assets and production facilities of certain significant subsidiaries under the court orders and most of the accounting personnel of the Group have left, the Directors have been unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and the Company as at 31 December 2004 and have formed the opinion as follows:
  - (a) As further explained by the Directors in note 3(iii)(a) to the accounts, the Directors were unable to obtain sufficient documentary evidence to support other payables and accruals of approximately HK\$293,978,000 (2003: HK\$307,557,000) and HK\$293,978,000 (2003: HK\$291,827,000) included in the Group's and the Company's balance sheet respectively, including the liabilities under indemnities given to subsidiaries not consolidated of approximately HK\$291,130,000 (2003: HK\$291,130,000). Accordingly the Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the accounts.
  - (b) As further explained by the Directors in note 3(iii)(b) to the accounts, the Directors were unable to satisfy themselves as to whether the amounts due to subsidiaries not consolidated of approximately HK\$5,983,000 (2003: HK\$219,752,000) included in the Group's balance sheet and the amounts due

to subsidiaries of approximately HK\$5,983,000 (2003: HK\$5,983,000) included in the Company's balance sheet and in note 15 to the accounts are fairly stated.

- (c) As further explained by the Directors in note 3 (ii)(a) to the accounts, the subsidiaries, Great Wall France SA, which was put into liquidation during the year ended 31 December 2004, together with its immediate holding companies were deconsolidated from the consolidated accounts as of 1 January 2004, being the date the Directors considered that control to have been lost. In the absence of reliable financial information in respect of these subsidiaries, the Directors were unable to obtain sufficient documentary and other adequate evidence to satisfy themselves as to the correctness of the gain on deconsolidation of these subsidiaries amounting to HK\$205,229,000 approximately. Accordingly the Directors were also unable to satisfy themselves as to whether the gain on deconsolidation of these subsidiaries included in the consolidated profit and loss account and in note 6 to the accounts are fairly stated.
- (d) As further explained by the Directors in note 3(iii)(c) to the accounts, the accounts have been prepared based on the books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Directors were unable to represent as to the completeness of recording of all transactions entered into by the Company and its subsidiaries for the years ended 31 December 2003 and 2004. In this context, the Directors are also unable to represent as to the completeness of identification and disclosures of directors' and employees' emoluments in note 9, taxation in note 10 and inventories in note 18 to the accounts.
- (e) The Directors have formed the opinion that the amounts due from subsidiaries not consolidated to the Group of approximately HK\$1,285,690,000 (2003: HK\$1,584,758,000) and amounts due from subsidiaries to the Company of approximately HK\$1,285,670,000 (2003: HK\$1,285,670,000) included in the Group's and the Company's balance sheet respectively as at 31 December 2004 cannot be recovered. Accordingly, the Directors have made provisions against these amounts. However, we were unable to obtain sufficient information and explanations regarding the basis upon which the Directors have determined the amount of such provisions. Accordingly, we were unable to satisfy ourselves as to whether the provisions against these amounts as included in the consolidated profit and loss account in current and prior years were appropriate and the amounts due from these subsidiaries, after net of provisions, are fairly stated at the balance sheet date.

In addition, for the same reasons stated above, we have not been able to obtain all necessary information for us to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/ or disclosed as notes to the accounts of the Group as at 31 December 2004.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraph 2 above. Any adjustments to the above figures would as appropriate affect the net liabilities of the Company and the Group as at 31 December 2004 and the profit of the Group for the year ended 31 December 2004.

In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provide a reasonable basis for our opinion.

#### **FUNDAMENTAL UNCERTAINTY RELATED TO THE GOING CONCERN BASIS**

In forming our opinion, we have considered the adequacy of the disclosures in note 3(i) to the accounts concerning the adoption of the going concern basis on which the accounts have been prepared. As explained in note 3(i) to the accounts, the Company has experienced financial difficulties and is currently negotiating with a potential investor for the purpose of restructuring of the Company's indebtedness and revitalising the Group's financial position and business. The accounts have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures to be implemented and in process by the Group to improve the financial position and business of the Group. The accounts do not include any adjustments that would result from the failure of these measures. We consider that the appropriate disclosures have been made but, because of the significant uncertainties relating to the outcome of the restructuring proposal are so extreme, we are not able to determine whether the going concern basis used in preparing these accounts is appropriate. Accordingly, we have disclaimed our opinion.

#### **QUALIFICATION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT**

1. As detailed in note 16(a) to the accounts, the consolidated accounts do not include the results of certain subsidiaries, which either themselves or their immediate holding companies are in the course of liquidation or their major assets and production facilities located in the People's Republic of China were seized under court orders as security for unsettled claims, up to the respective dates of appointment of liquidators as ordered by the courts. This treatment is not in accordance with the requirements of Statement of Standard Accounting Practice ("SSAP") 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" issued by the HKICPA and the Hong Kong Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the accounts to give a true and fair view of the state of affairs of the Group as at 31 December 2004 and of the results of the Group for the year ended 31 December 2004. It is not practicable to quantify the effect of the departure from this requirement.
2. As detailed in note 16(b) to the accounts, the accounts of the Group do not consolidate the accounts of certain subsidiaries. This treatment is not in accordance with the requirements of SSAP 32 and the Hong Kong Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the accounts to give a

true and fair view of the state of affairs of the Group as at 31 December 2004 and of the results of the Group for the year ended 31 December 2004. It is not practicable to quantify the effect of the departure from this requirement.

3. As explained in note 3(iii)(e) to the accounts, the accounts do not contain a cash flow statement. This is not in accordance with the requirements of SSAP 15 “Cash flow statements”. In our opinion, information about the Group’s cash flows is necessary for a proper understanding of the Group’s state of affairs and profit for the year ended 31 December 2004. It is not practicable to quantify the effect of the departure from this requirement.

#### **QUALIFICATION ARISING FROM DISAGREEMENTS ABOUT THE EXTENT OF DISCLOSURES**

As explained in note 3(iii)(d) to the accounts, due to limited books and records available to the Directors, the following disclosures have not been made in the accounts:

1. Disclosures in respect of subsidiaries excluded from consolidation as required by SSAP 32 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”;
2. Disclosures in respect of finance lease obligations as required by SSAP 14 (Revised) “Leases”;
3. Details of the share option scheme as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”);
4. Details of the retirement benefit scheme and the employee benefits as required by SSAP 34 “Employee benefits”;
5. Segment information disclosures as required by SSAP 26 (Revised) “Segment Reporting” and the Listing Rules;
6. Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance;
7. Details of deferred taxation as required by SSAP12 (Revised) “Income Taxes”;
8. Details of related party disclosures as required by SSAP 20 “Related Party Disclosures”;
9. Details of the Group’s credit risk and ageing of debtors and creditors as required by the Listing Rules; and
10. Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and relevant SSAPs.

**DISCLAIMER OF OPINION**

Because of the significance of each of (i) the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report; (ii) the fundamental uncertainty relating to the going concern basis and (iii) the non-compliance of certain disclosure requirements as mentioned above, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2004 and of the profit of the Group for the year then ended and as to whether the accounts have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect of the limitations on our work as set out in the basis of opinion section of this report:

- We have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and
- We were unable to determine whether proper books of accounts have been kept.

**TING HO KWAN & CHAN**  
*Certified Public Accountants*

Hong Kong, 20 July 2005”

**5. AUDITORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2005**

Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31st December, 2005. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31st December, 2005.

**“TO THE SHAREHOLDERS OF GREAT WALL CYBERTECH LIMITED****(Provisional Liquidators Appointed)***(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 15 to 42 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgement and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned 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 statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. Our report on the financial statements of the Group for the year ended 31 December 2004 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit resulting from the inability of the Directors to locate sufficient documentary information. It was explained by the Directors that due to liquidation of certain significant subsidiaries or their immediate holding companies and the seizure of the major assets and production facilities of certain significant subsidiaries under the court orders and most of the accounting personnel of the Group have left, the Directors have been unable to obtain sufficient documentary information for audit purposes. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Company and the Group as at 31 December 2004 and the results of the Group for the year ended 31 December 2004 were fairly stated. Any adjustments to the opening balances as at 1 January 2005 would affect the net liabilities of the Company and the Group as at 31 December 2005 and the results and cash flows of the Group for the year ended 31 December 2005. Also the comparative figures in respect of the net liabilities of the Company and of the Group as at 31 December 2004 and the results and cash flows of the Group for the year ended 31 December 2004 may not be comparable with the figures for the current year.

As shown in note 3(ii)(a) to the financial statements, the Directors confirmed that they had not received any further information concerning the progress and possible outcome of the liquidation or seizure of the assets of the aforesaid subsidiaries or their immediate holding companies since the date of approval of the last year's financial statements. Any changes to the above status of liquidation or possible outcome from the seizure of assets of these subsidiaries or their immediate holding companies might have a consequential effect on the net liabilities of the Group and the Company as at 31 December 2005 and the results and cash flows of the Group for the year ended 31 December 2005.

2. As explained by the Directors in note 3(ii) & (iii) to the financial statements that due to liquidation of certain significant subsidiaries or their immediate holding companies and the seizure of the major assets and production facilities of certain significant subsidiaries under the court orders and most of the accounting personnel of the Group have left, the Directors have been unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and the Company as at 31 December 2005 and have formed the opinion as follows:
  - (a) As further explained by the Directors in note 3(iii)(a) to the financial statements, the Directors were unable to obtain sufficient documentary evidence to support other payables of approximately HK\$293,807,000 (2004: HK\$293,978,000) included in the Group's and the Company's balance sheet as at 31 December 2005, including the liabilities under indemnities given to subsidiaries not consolidated of approximately HK\$291,130,000 (2004: HK\$291,130,000). Accordingly the Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

- (b) As further explained by the Directors in note 3(iii)(b) to the financial statements, the Directors were unable to satisfy themselves as to whether the amounts of approximately HK\$5,983,000 (2004: HK\$5,983,000) due to certain subsidiaries not consolidated and subsidiaries of the Company included in the Group's and Company's balance sheet respectively are fairly stated as at 31 December 2005.
- (c) As further explained by the Directors in note 3(iii)(c) to the financial statements, the financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Directors were unable to represent as to the completeness of recording of all transactions entered into by the Company and its subsidiaries for the years ended 31 December 2004 and 2005. In this context, the Directors are also unable to represent as to the correctness and completeness of identification and disclosures of directors' and employees' emoluments in note 9, property, plant and equipment in note 14, details of the retirement benefits scheme and employee benefits in note 22 and taxation in note 10 to the financial statements.
- (d) The Directors have formed the opinion that the amounts due from subsidiaries not consolidated to the Group of approximately HK\$1,285,720,000 (2004: HK\$1,285,690,000) and amounts due from subsidiaries to the Company of approximately HK\$1,285,670,000 (2004: HK\$1,285,670,000) included in the Group's and the Company's balance sheet respectively as at 31 December 2005 cannot be recovered. Accordingly, the Directors have made provisions against these amounts. However, we were unable to obtain sufficient information and explanations regarding the basis upon which the Directors have determined the amount of such provisions. Accordingly, we were unable to satisfy ourselves as to whether the provisions against these amounts as included in the consolidated income statement in current and prior years were appropriate and the amounts due from these subsidiaries, after net of provisions, are fairly stated at the balance sheet date.
- (e) As further explained by the Directors in note 3(iii)(e) to the financial statements, in the absence of sufficient information and documentary evidence concerning details of share options of the Company as disclosed in note 19 to the financial statements, we are unable to ascertain whether the Company is in compliance with the Hong Kong Financial Reporting Standard("HKFRS") 2 "Share-based Payments" issued by the HKICPA and it is also not practicable to quantify the effect of the non-compliance with HKFRS 2. In addition, because of insufficient information and documentary evidence available to us, we are unable to ascertain the completeness of the disclosures of the Company's share options as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In addition, for the same reasons stated above, we have not been able to obtain all necessary information for us to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/or disclosed as notes to the financial statements of the Group as at 31 December 2005.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraph 2 above. Any adjustments to the above figures would as appropriate affect the net liabilities of the Company and the Group as at 31 December 2005 and the profit and cash flows of the Group for the year ended 31 December 2005.

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

#### **FUNDAMENTAL UNCERTAINTY RELATED TO THE GOING CONCERN BASIS**

In forming our opinion, we have considered the adequacy of the disclosures in note 3(i) to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 3(i) to the financial statements, the Company has experienced financial difficulties and is currently negotiating with a potential investor for the purpose of restructuring of the Company's indebtedness and revitalising the Group's financial position and business. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures to be implemented and in process by the Group to improve the financial position and business of the Group. The financial statements do not include any adjustments that would result from the failure of these measures. We consider that the appropriate disclosures have been made but, because of the significant uncertainties relating to the outcome of the restructuring proposal are so extreme, we are not able to determine whether the going concern basis used in preparing these financial statements is appropriate. Accordingly, we have disclaimed our opinion.

#### **QUALIFICATION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT**

1. As detailed in note 16(a) to the financial statements, the consolidated financial statements do not include the results and cash flows of certain subsidiaries, which either themselves or their immediate holding companies are in the course of liquidation or their major assets and production facilities located in the People's Republic of China were seized under court orders as security for unsettled claims, up to the respective dates of appointment of liquidators as ordered by the courts. This treatment is not in accordance with the requirements of Hong Kong Accounting Standard ("HKAS") 27 "Consolidated and Separate Financial Statements" issued by the HKICPA and the Hong Kong Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the financial statements to give a true and fair view of

the state of affairs of the Group as at 31 December 2005 and of the results and cash flows of the Group for the year ended 31 December 2005. It is not practicable to quantify the effect of the departure from this requirement.

2. As detailed in note 16(b) to the financial statements, the financial statements of the Group do not consolidate the financial statements of certain subsidiaries. This treatment is not in accordance with the requirements of HKAS 27 and the Hong Kong Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the financial statements to give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the results and cash flows of the Group for the year ended 31 December 2005. It is not practicable to quantify the effect of the departure from this requirement.

### **QUALIFICATION ARISING FROM DISAGREEMENTS ABOUT THE EXTENT OF DISCLOSURES**

As explained in note 3(iii)(d) to the financial statements, due to limited books and records available to the Directors, the following disclosures have not been made in the financial statements:

1. Disclosures in respect of finance lease obligations as required by HKAS 17 “Leases”;
2. Segment information disclosures as required by HKAS 14 “Segment Reporting” and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
3. Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance;
4. Details of deferred taxation as required by HKAS 12 “Income Taxes”;
5. Details of related party disclosures as required by HKAS 24 “Related Party Disclosures”;
6. Details of the Group’s financial risk management objectives and policies as required by HKAS 32 “Financial Instruments: Disclosure and Presentation”; and
7. Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and relevant HKASs.

### **DISCLAIMER OF OPINION**

Because of the significance of each of (i) the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report; and (ii) the fundamental uncertainty relating to the going concern basis and (iii) the non-compliance of certain disclosure requirements as mentioned above, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the

Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect of the limitations on our work as set out in the basis of opinion section of this report:

- We have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and
- We were unable to determine whether proper books of accounts have been kept.

**TING HO KWAN & CHAN**  
*Certified Public Accountants (practising)*

Hong Kong, 28 April 2006”

## 6. AUDITED FINANCIAL INFORMATION

Set out below is summary of the audited consolidated profit and loss accounts of the Company for the two year ended 31st December, 2005 and 2004, the consolidated balance sheets of the Company as at 31st December, 2005 and 2004, the balance sheets of the Company as at 31st December, 2005 and 2004, the consolidated statement of changes in equity of the Company for the two years ended 31st December, 2005 and 2004 and the consolidated cash flow statement of the Company for the two years ended 31st December, 2005 and 2004 together with the relevant notes in the accounts as extracted from the audited accounts of the Company for the year ended 31st December, 2005.

**“Consolidated income statement**  
for the year ended 31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
TURNOVER	5	513,610	119,677
COST OF SALES		<u>(498,221)</u>	<u>(117,147)</u>
GROSS PROFIT		15,389	2,530
OTHER INCOME AND GAINS, NET	5	2,139	–
SELLING AND DISTRIBUTION COSTS		(236)	(202)
ADMINISTRATIVE EXPENSES		(6,981)	(7,008)
GAIN ON DECONSOLIDATION OF SUBSIDIARIES	6	–	205,229
FINANCE COSTS	7	<u>(300)</u>	<u>(42)</u>
<b>PROFIT BEFORE TAXATION</b>	8	10,011	200,507
TAXATION	10	<u>(1,810)</u>	<u>(57)</u>
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	12	<u><u>8,201</u></u>	<u><u>200,450</u></u>
<b>EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE YEAR</b>	13		
Basic		<u><u>0.1 cents</u></u>	<u><u>2.4 cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

**Consolidated balance sheet***at 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>14</i>	<u>67</u>	<u>72</u>
<b>CURRENT ASSETS</b>			
Interests in subsidiaries not consolidated	<i>16</i>	–	–
Trade and other receivables	<i>17</i>	13,856	1,301
Bank balances		<u>59</u>	<u>1,159</u>
		<u>13,915</u>	<u>2,460</u>
<b>CURRENT LIABILITIES</b>			
Amounts due to subsidiaries not consolidated		7,885	7,696
Trade and other payables	<i>18</i>	298,607	297,357
Profits tax payable		<u>1,867</u>	<u>57</u>
		<u>(308,359)</u>	<u>(305,110)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(294,444)</u>	<u>(302,650)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES/NET LIABILITIES</b>		<u><u>(294,377)</u></u>	<u><u>(302,578)</u></u>
<b>EQUITY</b>			
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS</b>			
Issued capital	<i>19</i>	80,763	80,763
Reserves	<i>20</i>	<u>(375,140)</u>	<u>(383,341)</u>
		<u><u>(294,377)</u></u>	<u><u>(302,578)</u></u>

**Wu Shaozhang**  
*Chairman*

**Tse On Kin**  
*Vice-chairman*

**Balance sheet***at 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	<i>15</i>	<u>(7,333)</u>	<u>(6,870)</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>18</i>	<u>(293,807)</u>	<u>(293,978)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES/NET LIABILITIES</b>		<b><u>(301,140)</u></b>	<b><u>(300,848)</u></b>
<b>EQUITY</b>			
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS</b>			
Issued capital	<i>19</i>	80,763	80,763
Reserves	<i>20</i>	<u>(381,903)</u>	<u>(381,611)</u>
		<b><u>(301,140)</u></b>	<b><u>(300,848)</u></b>

**Wu Shaozhang**  
*Chairman*

**Tse On Kin**  
*Vice-chairman*

**Consolidated statement of changes in equity**  
*for the year ended 31 December 2005*

	Attributable to equity holders of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus account HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	
At 1 January 2004	80,763	792,011	9,924	145,372	5,470	(1,531,098)	(497,558)
Realised upon deconsolidation	–	–	–	–	(5,470)	–	(5,470)
Profit for the year	–	–	–	–	–	200,450	200,450
At 31 December 2004	80,763	792,011	9,924	145,372	–	(1,330,648)	(302,578)
Profit for the year	–	–	–	–	–	8,201	8,201
At 31 December 2005	<u>80,763</u>	<u>792,011</u>	<u>9,924</u>	<u>145,372</u>	<u>–</u>	<u>(1,322,447)</u>	<u>(294,377)</u>

**Consolidated cash flow statement**  
for the year ended 31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year		8,201	200,450
Adjustments for:			
Taxation	<i>10</i>	1,810	57
Depreciation	<i>14</i>	24	3
Impairment losses for:			
Trade and other receivables	<i>8</i>	661	11
Amounts due from subsidiaries not consolidated	<i>8</i>	37	19
Gain on deconsolidation of subsidiaries	<i>6</i>	–	(205,229)
Finance costs	<i>7</i>	300	42
		<u>11,033</u>	<u>(4,647)</u>
Changes in working capital:			
Trade and other receivables		(13,216)	(1,301)
Amounts due from subsidiaries not consolidated		(37)	(19)
Amounts due to subsidiaries not consolidated		189	1,712
Trade and other payables		<u>1,250</u>	<u>5,529</u>
Net cash (used in)/generated from operations		(781)	1,274
Interest paid		<u>(300)</u>	<u>(42)</u>
Net cash (used in)/generated from operating activities		<u>(1,081)</u>	<u>1,232</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash outflow in respect of deconsolidation of subsidiaries	<i>21</i>	–	(753)
Purchase of property, plant and equipment		<u>(19)</u>	<u>(75)</u>
Net cash used in investing activities		<u>(19)</u>	<u>(828)</u>
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		(1,100)	404
Cash and cash equivalents at beginning of the year		<u>1,159</u>	<u>755</u>
<b>CAH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
Bank balances		<u><u>59</u></u>	<u><u>1,159</u></u>

**Notes to the financial statements**

*for the year ended 31 December 2005*

**1. CORPORATE INFORMATION AND UPDATE**

The Company was incorporated in Bermuda with limited liabilities and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company in Hong Kong is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of the principal place of business of the Company is 26th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong. The Company's shares have been suspended for trading on the Stock Exchange since 24 March 2003.

The Company is an investment holding company. The principal activities of the Company's subsidiaries of which their financial statements have been consolidated at 31 December 2005 are set out in note 15 to the financial statements.

**2. WINDING-UP PETITION AND APPOINTMENT OF PROVISIONAL LIQUIDATORS**

As explained in the Group's 2002 annual report, the Group has been experiencing financial difficulties since about 2002. On 25 March 2003, the Bank of East Asia Limited ("BEA"), petitioned for the winding-up of the Company as the Company failed to comply with the statutory demand issued by BEA on 2 December 2002. Upon the application of the Company by summons filed on 30 April 2003, Mr. Derek K.Y.Lai and Mr. Joseph K.C.Lo of Deloitte Touche Tohmatsu were appointed as joint and several provisional liquidators of the Company by the High Court of Hong Kong Special Administrative Region on 21 June, 2003 so as to preserve the assets of the Company and to consider and review restructuring proposals or scheme of arrangement to be proposed by any interested party. On 22 July 2004, the Company was placed in its third stage of the delisting procedure under Practice Note 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). In addition, the winding up petition was further adjourned to 29 May 2006.

**3. BASIS OF PREPARATION****(i) GOING CONCERN**

In addition to the Company's financial difficulties as mentioned in note 2 to the financial statements, the Company announced on 10 June 2004 that, inter alia, an escrow and exclusivity agreement ("Escrow Agreement") was entered into on 4 June 2004 amongst (i) the Company, (ii) the potential investor, (iii) the provisional liquidators and (iv) the escrow agent. In the Escrow Agreement, the potential investor submitted a restructuring proposal which outlined the major terms for restructuring of the Company. Pursuant to the Escrow Agreement, it was agreed to grant the potential investor an exclusivity period for finalisation of the restructuring proposal.

On 26 September 2005, the Review Committee of the Stock Exchange has granted conditional approval for the restructuring proposal, subject to the fulfillment of certain conditions.

As set out in the Company's announcement dated 21 April 2006, the Company, the investor and the provisional liquidators entered into a restructuring agreement on 13 April 2006 for implementation of the restructuring proposal.

The principal elements of the restructuring proposal are as follows:

**(a) Capital reorganisation**

The Company will implement capital reorganisation, involving share consolidation, capital reduction and capital reserve reduction.

**(i) Share consolidation**

Every 100 issued shares of HK\$0.01 each will be consolidated into one consolidated share of HK\$1 each. Fractional consolidated shares will not be issued to the shareholders but will be aggregated and sold for the benefit of the Company.

(ii) *Capital reduction*

Immediately upon the share consolidation becoming effective, the Company will carry out a reduction of the nominal value of each consolidated share from HK\$1 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.99 on each issued consolidated share. The adjusted shares will have par value of HK\$0.01 each upon the capital reduction becoming effective.

(iii) *Capital reserve reduction*

The Company will carry out a cancellation of the entire amount standing to the credit of its share premium account, capital redemption reserve account and capital reserve account.

(b) Subscription

Pursuant to the subscription agreement with the Company's potential investor, the investor will subscribe for 2,075,000,000 subscription shares at a consideration of HK\$83 million. In addition, 352,750,000 additional shares will be issued and allotted to the investor, credited as fully paid, on the basis of 17 additional shares for every 100 subscription shares subscribed by the investor.

An amount of HK\$21.5 million out of the subscription proceeds will then be transferred to the scheme administrators for the creditors' settlement and the balance of the subscription proceeds will be used for working capital and investments of the Company.

(c) Creditors' schemes

It is proposed that all indebtedness of the Company will be restructured pursuant to the creditors' schemes. An amount of HK\$21.5 million out of the subscription proceeds as stated in (b) above and the entire interests in the Scheme HK Group and Scheme BVI Group (comprising members of the Group which will be excluded from the restructured group but some of which are either in the process of winding up and/ or the Company considers control to have been lost) as defined and detailed in the Company's announcement dated 21 April 2006, will be transferred to the scheme administrators for administration. According to the creditors' schemes, all the Company's secured debts will be satisfied by their respective collateralised property or assets and all the unsecured debts will be settled by way of a cash payment on a pro-rata basis out of the HK\$21.5 million from the proceeds of the subscription as mentioned in (b) above ("Distribution Proceeds"), subject to deduction of the related petition costs and the scheme administration cost up to HK\$1 million in aggregate. The Distribution Proceeds and, if any, amounts raised from realisation of assets of the Scheme HK Group and Scheme BVI Group will be used to repay the scheme creditors for the discharge and settlement in full of the indebtedness. Upon the implementation of the creditors' schemes, the Company's indebtedness will then be fully discharged and settled.

(d) Open offer

As part of the measures to restore the 25% public float and as required under the Listing Rules and to enable the existing shareholders to participate in the restructuring proposal, an open offer of 9 offer shares for every 5 adjusted shares held by the qualifying shareholders on the record date at the price of HK\$0.06 per offer share will be made.

(e) Placings

As part of the measures to restore the 25% public float and as required under the Listing Rules, 374,627,374 new shares and 156,500,000 sale shares will be placed to no less than six independent investors who are third parties independent of the Company and its connected persons and the investor at no less than HK\$0.06 each by the placing agent on a best effort basis.

The completion of the above restructuring agreement is conditional upon the fulfillment of certain terms and conditions, details of which have been included in the Company's announcement dated 21 April 2006.

The Directors have prepared the financial statements on the basis that the restructuring proposal of the Company will be successfully implemented and that the Group will be able to improve its financial position and business upon completion of restructuring. As at the date of approval of the financial statements, the Directors are not aware of any circumstances or reasons that would likely affect the successful implementation of the restructuring proposal and the intention of the potential investor. In light of the foregoing, the Directors opined that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not incorporate any adjustments for possible failure of the above mentioned restructuring proposal and the continuance of the Group as a going concern.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these potential adjustments has not been incorporated in the financial statements.

**(ii) SUBSIDIARIES NOT CONSOLIDATED**

- (a) The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to (a) the liquidation of certain significant subsidiaries or their immediate holding companies; or (b) the seizure of the major assets and production facilities of the major subsidiaries under the court orders as security for the unsettled claims, the Directors have not been able to obtain access to the books and records of these subsidiaries and considered that control to have been lost. The results, cash flows, assets and liabilities of these subsidiaries were not consolidated into the financial statements of the Group. Details of these subsidiaries deconsolidated from the group financial statements are set out in note 16(a).

In the opinion of the Directors, the financial statements for the year ended 31 December 2005 prepared on the aforementioned basis present more fairly the results and cash flows and state of affairs of the Group as a whole in light of liquidation or seizure of the assets of subsidiaries.

As explained by the Directors, since 20 July 2005, being the date on which last year's financial statements approved by the Directors, they had not received any further information concerning the progress and possible outcome of the liquidation or seizure of the assets of the aforesaid subsidiaries or their immediate holding companies. Any changes to the above status of liquidation or possible outcome from the seizure of assets of these subsidiaries or their immediate holdings companies might have a consequential effect on net liabilities of the Group and the Company as at 31 December 2005 and the results and cash flows of the Group for the year ended 31 December 2005.

- (b) In addition, the Directors considered that the non-consolidation of the results, cash flows, assets and liabilities of subsidiaries as set out in note 16(b) to the financial statements would not significantly affect the results and cash flows and state of affairs of the Group for the current year as the cost of obtaining this information would exceed the value of this information to the members of the Company.

Details of subsidiaries not consolidated in the financial statements are set out in note 16(a) and 16(b) to the financial statements.

- (iii) In addition to the limited financial information available concerning certain subsidiaries due to liquidation or seizure of assets of certain major subsidiaries as detailed in note 3(ii)(a) to the financial statements, the Directors have used their best endeavours to relocate all the financial and business records of the Group as most of the former accounting personnel of the Group have left. The Directors were unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and of the Company as at 31 December 2005.

- (a) The Directors were unable to obtain sufficient documentary evidence to support other payables of approximately HK\$293,807,000 included in the Group's and the Company's balance sheet as at 31 December 2005, including the liabilities under indemnities given to subsidiaries not consolidated of approximately HK\$291,130,000 as at 31 December 2005. Accordingly the Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.
- (b) The Directors were unable to satisfy themselves as to whether the amounts of approximately HK\$5,983,000 due to certain subsidiaries not consolidated and subsidiaries of the Company included in the Group's and Company's balance sheet respectively are fairly stated as at 31 December 2005.
- (c) The financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Directors were unable to represent as to the completeness of recording of all transactions entered into by the Company and its subsidiaries for the years ended 31 December 2004 and 2005. Accordingly, the Directors were also unable to represent as to the correctness and completeness of identification and disclosure of directors' and employees' emoluments in note 9, property, plant and equipment in note 14, details of the retirement benefits scheme and employee benefits in note 22 and taxation in note 10 to the financial statements.
- (d) Due to limited books and records available to the Directors, the following have not been made in the financial statements:
- Disclosures in respect of finance lease obligations as required by Hong Kong Accounting Standard ("HKAS") 17 "Leases";
  - Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance;
  - Segment information disclosures as required by HKAS 14 "Segment Reporting" and the Listing Rules;
  - Details of deferred taxation as required by HKAS 12 "Income Taxes";
  - Details of related party disclosures as required by HKAS 24 "Related Party Disclosures";
  - Details of the Group's financial risk management objectives and policies as required by HKAS 32 "Financial Instruments: Disclosure and Presentation"; and
  - Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and the relevant HKASs.
- (e) Due to insufficient information and documentary evidence available to the Directors, they were unable to ascertain the completeness of the disclosures of the Company's share options as required by the Listing Rules.

Any adjustments arising from the matters described in above would affect the net liabilities of the Company and the Group as at 31 December 2005 and the profit and cash flows of the Group for the year then ended.

Also, as a result of the matters described in above, the comparative figures at 31 December 2004 shown in the consolidated balance sheet on page 16, the Company's balance sheet on page 17 and in the consolidated income statement and consolidated cash flow statement for the year then ended on page 15 and page 19 respectively may not be comparable with the figures for the current year.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Basis of preparation**

The consolidated financial statements have been prepared under the historical cost convention.

##### **Application of new/revised Hong Kong Financial Reporting Standards**

In 2005, the Group adopted the following new/revised standards of Hong Kong Financial Reporting Standards (“HKFRS”) (including Hong Kong Accounting Standards (“HKAS”) and interpretations (“Int”)) issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int15	Operating leases – Incentive
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of the above HKASs did not result in substantial changes to the Group’s accounting policies. In summary:

The adoption of HKAS 1 has resulted in a change of presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively.

HKAS 7, 8, 10, 12, 16, 17, 23, 27, 32, 33, 36, 38, 39, HKAS-Int 15 and HKFRS 3 had no material effect on the Group’s policies.

HKAS 21 had no material effect on the Group’s policy. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

In the absence of sufficient information and documentation evidence available to us regarding share options of the Company, it is not practicable to quantify the effect of the non-compliance with HKFRS 2.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new standards and interpretations but is not yet in a position to determine whether these new statements and interpretations would have a significant impact on how its results of operations and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosure <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the balance sheet date, other than those excluded for the reasons referred to note 16 to the financial statements. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

Where the Company holds more than half of the issued share capital of a subsidiary, but does not control the composition of the board of directors or equivalent governing body, the financial statements of that subsidiary are not consolidated because it would be misleading to do so. Where the Company is in a position to exercise significant influence, such investments are dealt with as associates as appropriate. Otherwise, they are dealt with as available-for-sale investments.

Certain subsidiaries within the Group have not been consolidated from the consolidated financial statements as of 1 April 2002 or the date the Company has been unable to obtain access to any financial information of these subsidiaries because in the opinion of the Directors, the Group has lost control over these subsidiaries and it will be misleading to the users if these subsidiaries are consolidated into the Group's results, cash flows and assets and liabilities.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

**Intangible assets***Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/ associate entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**Property, plant and equipment**

All property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values (if, there are any) over their estimated useful lives, as follows:

Plant and machinery	10%–33⅓%
Furniture, fixtures and equipment	20%–33⅓%

No depreciation is provided on properties under development until they are completed and put into use.

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

The gain or loss on disposal or retirement of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank and other borrowings in current liabilities on the balance sheet.

**Leases***Finance lease (as the lessee)*

Leases of assets where the Group has substantially obtained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful lives of the assets or the lease terms.

*Operating lease (both as the lessor and lessee)*

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

**Provisions**

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

**Revenue recognition**

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

- *the sale of goods*

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- *Consultancy and management services*

Revenue is recognised when the relevant consultancy and management services are rendered.

– *Gain on disposal of know-how technology*

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the know how technology.

**Foreign currency translation**

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

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, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

**Retirement benefits costs**

The Group operates a defined contribution retirement benefits scheme set up under the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme") for its employees who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**Related parties**

A party is related to the Group if:

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

**5. TURNOVER, OTHER INCOME AND GAINS, NET**

Turnover represents the net amounts received and receivable from goods sold to customers, less returns and discounts, during the year. An analysis of the Group's turnover, other income and gains, net is as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>Turnover</b>		
Sale of consumer electronic products	<u>513,610</u>	<u>119,677</u>
<b>Other income</b>		
Consultancy and management fees income	42	–
Sundry income	<u>97</u>	<u>–</u>
	139	–
<b>Gains, net</b>		
Gain on disposal of know-how technology	<u>2,000</u>	<u>–</u>
	<u>2,139</u>	<u>–</u>
	<u><u>515,749</u></u>	<u><u>119,677</u></u>

**6. GAIN ON DECONSOLIDATION OF SUBSIDIARIES**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Gain on deconsolidation of subsidiaries	<u>–</u>	<u>205,229</u>

The above amount represented a gain on deconsolidation of the subsidiaries, Great Wall France SA which has been put into liquidation during the year ended 31 December 2004, together with its immediate holding companies, after the release of exchange fluctuation reserve of approximately HK\$5,470,000.

## 7. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on:		
Other loans wholly repayable within five years	<u>300</u>	<u>42</u>

## 8. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Staff costs:		
Wages and salaries	2,056	2,225
Director's remuneration ( <i>note 9</i> )	14	–
Mandatory provident fund contributions	76	67
Staff welfare and related expenses	<u>6</u>	<u>1</u>
	2,152	2,293
Depreciation	24	3
Management fee	350	–
Operating leases:		
Rental of premises	740	803
Auditors' remuneration	140	90
Impairment losses for:		
Trade and other receivables	661	11
Amounts due from subsidiaries not consolidated	<u>37</u>	<u>19</u>

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>Directors</b>		
Fees:		
Executive directors	–	–
Independent non-executive directors		
– Mr. Poon Kwok Shin	<u>14</u>	<u>–</u>
	14	–
Other emoluments for executive directors:		
Salaries, allowances, benefits in kind and provident fund contributions	<u>–</u>	<u>–</u>
	<u>14</u>	<u>–</u>

There was no arrangement under which a director waived or agreed to waive remuneration during the year.

In 2005 and 2004, the five highest paid individuals did not include any directors of the Company. The emoluments of the five highest paid individuals were as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Salaries and benefits in kind	<u>1,355</u>	<u>850</u>
	<u><u>1,355</u></u>	<u><u>850</u></u>

The number of the five highest paid employees whose remuneration fell within the following bands is as follows:

	<b>2005</b> <i>Number of employees</i>	<b>2004</b> <i>Number of employees</i>
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>

## 10. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year.

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Hong Kong Profits Tax	<u>1,810</u>	<u>57</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate applicable to profits of the consolidated companies as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Profit before taxation	<u>10,011</u>	<u>200,507</u>
Calculated at a taxation rate of 17.5% (2004:17.5%)	1,752	35,089
Tax effect of income not subject to taxation	–	(35,915)
Tax effect of expenses not deductible for taxation purposes	6	536
Tax effect of tax losses unrecognised for the year	51	358
Tax effect of temporary differences unrecognised for the year	<u>1</u>	<u>(11)</u>
Taxation charge	<u><u>1,810</u></u>	<u><u>57</u></u>

## 11. INDEMNIFIED LIABILITIES OF SUBSIDIARIES NOT CONSOLIDATED

The Company has given indemnities to certain bankers and vendors of its subsidiaries, which are at present under liquidation or their assets are now under seizure pursuant to the court orders for the unsettled claims, in respect of loans advanced and services rendered to those subsidiaries. The Company's obligations under these indemnities crystallised upon default payment on the part of those subsidiaries.

**12. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The profit for the year attributable to equity holders of the Company dealt with in the financial statements of the Company was the loss of HK\$292,000 (2004: the loss of HK\$3,049,000).

**13. EARNINGS PER SHARE**

The calculation of the basic earnings per share for the year ended 31 December 2005 is based on the profit for the year attributable to equity holders of the Company of HK\$8,201,000 (2004: HK\$200,450,000) and the weighted average number of 8,076,257,020 ordinary shares (for the year ended 31 December 2004: 8,076,257,020 ordinary shares) in issue.

No diluted earnings per share has been presented for the both years as there were no outstanding dilutive potential ordinary shares.

**14. PROPERTY, PLANT AND EQUIPMENT****Group**

	<b>Freehold land and buildings outside Hong Kong HK\$'000</b>	<b>Plant and machinery HK\$'000</b>	<b>Furniture, fixtures and equipment HK\$'000</b>	<b>Total HK\$'000</b>
<b>Cost:</b>				
At 1 January 2004	31,917	41,206	7,382	80,505
Additions	–	–	75	75
Subsidiaries deconsolidated	(31,917)	(41,206)	(7,382)	(80,505)
At 31 December 2004 and At 1 January 2005	–	–	75	75
Additions	–	–	19	19
At 31 December 2005	–	–	94	94
<b>Accumulated depreciation:</b>				
At 1 January 2004	13,789	39,017	6,585	59,391
Provided during the year	–	–	3	3
Subsidiaries deconsolidated	(13,789)	(39,017)	(6,585)	(59,391)
At 31 December 2004 and At 1 January 2005	–	–	3	3
Provided during the year	–	–	24	24
At 31 December 2005	–	–	27	27
<b>Net book value:</b>				
At 31 December 2005	–	–	67	67
At 31 December 2004	–	–	72	72

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost	5,001	5,001
Due from subsidiaries	<u>1,285,670</u>	<u>1,285,670</u>
	1,290,671	1,290,671
Impairment losses	<u>(1,290,671)</u>	<u>(1,290,671)</u>
	-	-
Due to subsidiaries	<u>(7,333)</u>	<u>(6,870)</u>
	<u>(7,333)</u>	<u>(6,870)</u>

The Directors had formed the opinion that the carrying amount of the Company's investments in subsidiaries of approximately HK\$5,001,000 had been impaired and amounts due from these subsidiaries of approximately HK\$1,285,670,000 could not be recovered and, accordingly, such impairment losses had already been recognised in the financial statements.

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the Company's subsidiaries as at 31 December 2005 which have been consolidated in these financial statements are as follows:

Name	Nominal value of issued and fully paid ordinary share capital	Attributable equity interest of the Company		Principal activities
		Direct	Indirect	
Fortune Hand Industries Limited	USD1	100%	-	Investment holding
Great Wall Infrastructure Limited	USD1	-	100%	Dormant
Innovision Enterprises Limited	HK\$1	-	100%	Sales, marketing, product design of audio-visual products

*Notes:*

1. The subsidiaries, Fortune Hand Industries Limited and Great Wall Infrastructure Limited, were incorporated in the British Virgin Islands and operated in Hong Kong.
2. The subsidiary, Innovision Enterprises Limited, was incorporated and operated in Hong Kong.

## 16. INTERESTS IN SUBSIDIARIES NOT CONSOLIDATED

- (a) The consolidated financial statements for the year ended 31 December 2005 do not include the following subsidiaries, which (i) are either themselves or their immediate holding companies are in the course of liquidation or (ii) the major assets and production facilities of the subsidiaries have been under seizure by the Mainland China Court Orders as a security for the unsettled claims against the Group. Accordingly, the Directors of the Company were unable to have access to the books and records of these subsidiaries.

Details of these subsidiaries where the Directors considered that control to have been lost are as follows:

Name of the principal subsidiaries	Proportion of nominal value of issued capital held by the Company indirectly
Video Epoch Limited (*)	100%
Video Epoch Electronic (Huizhou) Limited	100%
Huizhou City Caixing Electrical Appliance Limited	75%
Huizhou City Hua Xing Packing Material Company Limited	88%
Huizhou City Hang Tung Paper Products Printing Limited	70%
Brilliant Plastic Manufacturing Limited (*)	100%
Brilliant Plastic and Mould Manufacturing (Huizhou) Limited	90%
Brilliant Plastic Industrial (Huizhou) Limited	100%
Art-Tech Speakers Manufacturing (Huizhou City) Limited	67%
Art-Tech Electronics (Huizhou) Limited	100%
Great Wall Industries Company Limited	100%
Guangzhou Rowa Electronics Company Limited	60%
Great Wall France SA (**)	100%

\* *private companies incorporated and operated in Hong Kong*

\*\* *private company incorporated and operated in France*

The above subsidiaries were incorporated and operated in the People's Republic of China, except as otherwise noted.

The consolidated financial statements do not include the results and cash flows of these subsidiaries up to the respective dates of appointment of liquidators as ordered by the courts as, in the opinion of the Directors, the financial statements prepared on the captioned basis present more fairly the results and cash flows and state of affairs of the Group as a whole in light of liquidation and seizure of the assets of subsidiaries.

- (b) The financial statements of the Group do not consolidate the financial statements of the following subsidiaries set out below as in the opinion of the Directors, the non-consolidation of the results, cash flows and assets and liabilities of these subsidiaries would not significantly affect the results and cash flows and state of affairs of the Group for the year and the cost of obtaining this information would exceed the value of this information to the members of the Company.

Details of these principal subsidiaries not consolidated as at 31 December 2005 are as follows:

Name of the principal subsidiaries	Proportion of nominal value of issued capital held by the Company	
	Directly	Indirectly
Great Wall Capital Management Limited	–	100%
Great Wall Electronics Holding Limited	100%	–
Great Wall Strategic Holdings (BVI) Limited #	–	100%
Shenzhen Rowa Digital Network Technology Limited*	–	90%
Star Source Industries Limited	–	100%
Well Concur Limited	–	100%
Lipon Products Limited	–	100%
Great Wall Electronics Group Limited #	100%	–

# incorporated in the British Virgin Islands

\* registered and operating in the People's Republic of China as a sino-foreign equity joint venture

The above subsidiaries were incorporated and operating in Hong Kong, except as otherwise noted.

- (c) The Directors have formed the opinion that the Group's interests in the above subsidiaries had been fully impaired and such impairment losses had been recognised in the financial statements in previous years.

#### 17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade receivables	8,585	1,080	–	–
Less: impairment loss of receivables	655	–	–	–
	7,930	1,080	–	–
Other receivables and prepayments	5,926	221	–	–
	<u>13,856</u>	<u>1,301</u>	<u>–</u>	<u>–</u>

**APPENDIX II**
**FINANCIAL INFORMATION ON THE GROUP**

Included in trade and other receivables are trade debtors (net of impairment losses) with the following aging analysis as of the balance sheet date:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Current	1,965	803	–	–
1 to 3 months	3,668	179	–	–
4 to 6 months	2,252	98	–	–
More than 6 months	45	–	–	–
	<u>7,930</u>	<u>1,080</u>	<u>–</u>	<u>–</u>

The Group has recognised a loss of HK\$661,000 (2004: HK\$11,000) for the impairment of its trade and other receivables during the year ended 31 December 2005. The loss has been included in the income statement.

The fair value of the Group's trade and other receivables at 31 December 2005, which are mainly denominated in United States dollar, approximates to the corresponding carrying amount.

**18. TRADE AND OTHER PAYABLES**

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade payables	2,791	–	–	–
Other payables and accruals	<u>295,816</u>	<u>297,357</u>	<u>293,807</u>	<u>293,978</u>
	<u>298,607</u>	<u>297,357</u>	<u>293,807</u>	<u>293,978</u>

Included in other payables and accruals were the liabilities under indemnities given to subsidiaries not consolidated of approximately HK\$291,130,000 (2004: HK\$291,130,000)

At 31 December 2005, the aging analysis of the trade payables was as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
1 to 3 months	<u>2,791</u>	<u>–</u>	<u>–</u>	<u>–</u>

**19. SHARE CAPITAL**
**Shares**

	Company	
	2005 HK\$'000	2004 HK\$'000
<i>Authorised:</i>		
25,000,000,000 ordinary shares of HK\$0.01 each	<u>250,000</u>	<u>250,000</u>
<i>Issued and fully paid:</i>		
8,076,257,020 ordinary shares of HK\$0.01 each	<u>80,763</u>	<u>80,763</u>

**Share options**

On 15 April 2002, the Company terminated the old share option schemes, which had been adopted in 1991 and 1997, and adopted a new share option scheme (the "New Scheme"). The exercisable period for all the options granted under the old share option schemes which entitled the holder to subscribe for the shares of the Company had been expired on 6 March 2003.

The New Scheme shall be valid and effective for a period of 10 years from 15 April 2002, after which period no further share will be granted but the provisions of the New Scheme shall remain in full force and effect in all other respects.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options which must be a business day; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares. Since the date of the adoption of New Scheme, no options have ever been granted.

**20. RESERVES**

	<b>Share premium account</b> <i>HK\$'000</i>	<b>Capital redemption reserve</b> <i>HK\$'000</i>	<b>Contributed surplus account</b> <i>HK\$'000</i> <i>(Note)</i>	<b>Exchange fluctuation reserve</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Group</b>						
At 31 December 2003 and at 1 January 2004	792,011	9,924	145,372	5,470	(1,531,098)	(578,321)
Realised upon deconsolidation	–	–	–	(5,470)	–	(5,470)
Profit for the year	–	–	–	–	200,450	200,450
At 31 December 2004 and at 1 January 2005	792,011	9,924	145,372	–	(1,330,648)	(383,341)
Profit for the year	–	–	–	–	8,201	8,201
At 31 December 2005	<u>792,011</u>	<u>9,924</u>	<u>145,372</u>	<u>–</u>	<u>(1,322,447)</u>	<u>(375,140)</u>
	<b>Share premium account</b> <i>HK\$'000</i>	<b>Capital redemption reserve</b> <i>HK\$'000</i>	<b>Contributed surplus account</b> <i>HK\$'000</i> <i>(Note)</i>	<b>Capital reserve</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Company</b>						
At 31 December 2003 and at 1 January 2004	792,011	9,924	145,372	71,382	(1,397,251)	(378,562)
Loss for the year	–	–	–	–	(3,049)	(3,049)
At 31 December 2004	792,011	9,924	145,372	71,382	(1,400,300)	(381,611)
Loss for the year	–	–	–	–	(292)	(292)
At 31 December 2005	<u>792,011</u>	<u>9,924</u>	<u>145,372</u>	<u>71,382</u>	<u>(1,400,592)</u>	<u>(381,903)</u>

*Note:* The contributed surplus account of the Company and the Group represents the credit arising from capital reduction.

## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## Deconsolidation of subsidiaries

	2005 HK\$'000	2004 HK\$'000
Net liabilities deconsolidated:		
Property, plant and equipment	–	21,114
Inventories	–	16,889
Trade and other receivables	–	9,268
Cash and bank balances	–	753
Finance lease obligations	–	(13,627)
Trade and other payables	–	(20,388)
Amounts due to subsidiaries not consolidated	–	(213,768)
	–	(199,759)
Realisation of exchange fluctuation reserve	–	(5,470)
	–	(205,229)
Gain on deconsolidation of subsidiaries	–	205,229
	–	–
Satisfied by		
Cash consideration		
Analysis of the net outflow of cash and cash equivalents in respect of deconsolidation of subsidiaries:		
Cash and bank balances	–	753

## 22. RETIREMENT BENEFIT SCHEME

The Group contributes to a MPF Scheme for all qualifying employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions to the scheme by the Group and the employees are calculated as a percentage of employee's relevant income. The retirement benefit scheme costs charged to income statement represent contributions payable by the Group to the fund. The assets of the scheme are held separately from those of the Group in an independently administered fund.

## 23. POST BALANCE SHEET EVENTS

Details of post balance sheet events are summarised in notes 2 and 3 to the financial statements.

## 24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2006."

**7. MATERIAL CHANGES**

The Directors are not aware of any material changes in the financial or trading position or prospects of the Group since 31st December, 2005, the date to which the latest audited consolidated financial statements of the Group was made up.

**8. INDEBTEDNESS**

At the close of business on 31st March, 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had an aggregate outstanding indebtedness of approximately HK\$306.0 million, in which HK\$7.9 million was attributable to amounts due to non-consolidated subsidiaries and HK\$291.1 million was attributable to the provision for indemnities given by the Company to certain banks and vendors for their advances to its subsidiaries.

Save as aforesaid, the Group did not have, at the close of business on 31st March, 2006, any outstanding mortgages, charges, debentures, bank loans and overdrafts, debt securities or convertible loan notes or other similar indebtedness, loan capital issued or outstanding or agreed to be issued, finance leases, liabilities under acceptances or acceptance credits or any finance leases commitments, or any guarantees or other material contingent liabilities.

**9. WORKING CAPITAL**

Subject to Completion, the Group will raise net proceeds of approximately HK\$105 million, of which approximately HK\$63.5 million will be used as working capital of the Group.

The Directors are of the opinion that, in the absence of unforeseen circumstances and subject to Completion and the New Shares Placing being subscribed in full; the Group will have sufficient working capital for its present requirements.

**INTRODUCTION TO THE PRO FORMA FINANCIAL INFORMATION OF THE  
RESTRUCTURED GROUP**

The accompanying pro forma financial information of the Restructured Group has been prepared to illustrate the effect of the Restructuring Proposal.

The accompanying pro forma financial information of the Restructured Group as at 31st December, 2005 gives effect to the Restructuring Proposal as if it had been consummated on 31st December, 2005.

The accompanying pro forma financial information of the Restructured Group is prepared based upon the historical financial information of the Group as set out in Appendix II to this document after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments is summarised in the accompanying notes.

The pro forma financial information of the Restructured Group is prepared based on a number of assumptions and currently available information as mentioned above, and is provided for illustrative purposes only. Accordingly, as a result of the uncertain nature of the accompanying pro forma financial information of the Restructured Group, it may not give a true picture of the actual financial position of the Restructured Group that would have been attained had the Restructuring Proposal actually occurred on 31st December, 2005. Further, the accompanying pro forma financial information of the Restructured Group does not purport to predict the Restructured Group's future financial position.

The pro forma financial information of the Restructured Group should be read in conjunction with other financial information included elsewhere in this document.

**1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE RESTRUCTURED GROUP**

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Restructured Group based on the audited consolidated balance sheet of the Group as at 31st December, 2005 as set out in the annual report of the Group contained in Appendix II to this document and adjusted to reflect the effect of the Restructuring Proposal as if it had been consummated on 31st December, 2005:

	<b>Audited consolidated balance sheet as at 31st December, 2005 HK\$'000</b>	<b>Adjustments HK\$'000</b>	<i>Notes</i>	<b>Total HK\$'000</b>
Property, plant and equipment	67	–		67
Trade and other receivables	13,856	–		13,856
Bank balances	<u>59</u>	<u>83,500</u>	(i)	<u>83,559</u>
<b>Total assets</b>	<u>13,982</u>	<u>83,500</u>		<u>97,482</u>
Amount due to subsidiaries not consolidated	7,885	(5,983)	(ii), (v)	1,902
Trade and other payables	298,607	(293,807)	(iii), (v)	4,800
Profits tax payable	<u>1,867</u>	<u>–</u>		<u>1,867</u>
<b>Total liabilities</b>	<u>308,359</u>	<u>(299,790)</u>		<u>8,569</u>
<b>Net (liabilities) assets</b>	<u>(294,377)</u>	<u>383,290</u>		<u>88,913</u>

*Notes:*

- (i) Adjustment represents the balance of the estimated gross proceeds from the Subscription of HK\$83,000,000 less estimated expenditure including, among others, legal and professional fee in connection with the Restructuring Proposal of HK\$8,420,000; plus estimated net proceeds from the Open Offer of HK\$8,504,000 and estimated net proceeds from the New Shares Placing of HK\$21,916,000; and the deduction of HK\$21,500,000 payment to the Schemes Creditors pursuant to the Creditors' Schemes.
- (ii) Adjustment represents settlement of the amount due to subsidiaries not consolidated at Company level of HK\$5,983,000.
- (iii) Adjustment represents settlement of the indebtedness of HK\$293,807,000 pursuant to the Creditors' Scheme.
- (iv) The above adjustments do not have any continuing effect and are made on the assumption that the Restructuring Proposal has been successfully implemented and the liabilities of the Group have been discharged pursuant to the Creditors' Schemes.
- (v) Based on the books and records available to the Company, the indebtedness owed by the Company to the Schemes Creditors as at 31st December, 2005 amounted to approximately HK\$351,700,000, comprising HK\$5,983,000 and HK\$293,807,000 as shown in notes (ii) and (iii) above and HK\$51,910,000. The amounts of HK\$51,910,000 represent creditors holding an equivalent amount of pledged assets on hand and therefore the corresponding liabilities were not provided in the financial statements. Such amounts are expected to be discharged pursuant to the Creditors' Schemes.

2. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED  
NET TANGIBLE ASSETS OF THE RESTRUCTURED GROUP

For illustrative purpose only, the following is a statement of the unaudited pro forma adjusted consolidated net tangible assets of the Restructured Group, which is prepared on the basis of the audited consolidated net assets of the Group as at 31st December, 2005, as set out in the annual report of the Group contained in Appendix II to this document, adjusted to reflect the effect of the Restructuring Proposal as if it had been consummated on 31st December, 2005:

	<b>As at 31st December, 2005 (audited) HK\$'000</b>	<b>Adjustments HK\$'000 (Note 1)</b>	<b>Pro forma HK\$'000 (Note 2)</b>
Net tangible (liabilities) assets	<u>(294,377)</u>	<u>383,290</u>	<u>88,913</u>

Notes:

(1) Following the completion of the Restructuring Proposal, adjustments will be as follows:	HK\$
Net Proceeds from Subscription	74,580
Net Proceeds from Open Offer	8,504
Net Proceeds from New Shares Placing	21,916
Gain on settlement of the Indebtedness pursuant to the Creditors' Scheme	<u>278,290</u>
	<u>383,290</u>
(2) Audited consolidated net liabilities per share at 31st December, 2005 based on 8,076,257,020 Shares in issue before Completion	<u>HK\$(0.036)</u>
Unaudited adjusted consolidated net liabilities per Consolidated Share (based on 80,762,570 Consolidated Shares) immediately upon the Share Consolidation becoming effective	<u>HK\$(3.645)</u>
Pro forma unaudited adjusted consolidated net tangible asset value per Adjusted Share (based on 3,028,512,570 Adjusted Shares) which will be in issue upon Completion	<u>HK\$0.029</u>

**3. COMFORT LETTER FOR THE PRO FORMA FINANCIAL INFORMATION ON THE RESTRUCTURED GROUP**

The Board of Directors  
Great Wall Cybertech Limited  
(Provisional Liquidators Appointed)

Dear Sirs,

**Re: Unaudited Pro Forma Statement Of Assets And Liabilities And Statement Of Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets Of The Restructured Group, Comprising Great Wall Cybertech Limited (Provisional Liquidators Appointed) (The “Company”) And Its Subsidiaries, BVI Intermediary Holdco, Shenzhen Rowa Digital Network Technology Limited (“SZ Rowa”), Fortune Hand Industries Limited, Great Wall Infrastructure Limited And Innovision Enterprises Limited**

We report on the unaudited pro forma statement of assets and liabilities (the “Pro Forma Assets and Liabilities Statement”) and the statement of unaudited pro forma adjusted consolidated net tangible assets (the “Pro Forma Adjusted NTA”) of the Restructured Group as set out in sections 1 and 2 of Appendix III to the circular (the “Circular”) of the Company dated 29th May, 2006 relating to, inter alia, the Restructuring Proposal involving Capital Reorganisation, Subscription, Creditors’ Schemes, Open Offer, Placings, Group Reorganisation, application for Whitewash Waiver and renewal of General Mandates, which have been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed transactions might have affected the relevant financial information of the Restructured Group presented.

The directors also made representation on page 28 of the Circular that the subsidiary, SZ Rowa, did not commence any operations due to the downturn of internet related business worldwide at the time and it has remained dormant since then.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA 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 AG7 “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(7) of the Listing Rules, on the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA and to report our opinion solely 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 Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Report on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA have 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 Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work does not constitute an audit or review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such assurance on the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA.

The Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA have been prepared in accordance with the judgements and assumptions of the directors of the Company and, the basis as set out in sections 1 and 2 of Appendix III to the Circulars for illustrative purposes only and, because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Restructured Group as at 31st December, 2005 or any future date.

**Opinion**

Based on the representation made by the directors of the Company as set out in above and except for any adjustments that may be required in respect of the matters described below concerning our audit report on the financial statements of the Group for the year ended 31st December, 2005, in our opinion:

- a) the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA have been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

In respect of the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA, we draw to your attention to the fact that, as set out in our audit report dated 28th April, 2006 on pages 91 to 96 of Appendix II to the Circular (“Basis of Opinion”), because of the significance of each of (i) the possible effect of the limitations in evidence available to us; and (ii) the fundamental uncertainty relating to the going concern basis; and (iii) the non-compliance of certain disclosure requirements, we were unable to form an opinion as to whether the financial statements of the Group for the year ended 31st December, 2005 (the “Financial Statements”) gave a true and fair view of the state of affairs of the Company and of the Group as at the date and of the profit and cash flows of the Group for the year then ended and as to whether the Financial Statements had been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect of the limitations on our work as set out in the Basis of Opinion section of our audit report dated 28th April, 2006:

- (i) We have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and
- (ii) We were unable to determine whether proper books of accounts have been kept.

Any adjustments found to be necessary to the net liabilities of the Company and the Group as at 31st December, 2005 may have a consequential effect on the Pro Forma Assets and Liabilities Statement and the Pro Forma Adjusted NTA.

Yours faithfully,  
**Ting Ho Kwan & Chan**  
*Certified Public Accountants (practising)*  
Hong Kong

29th May, 2006

**4. WORKING CAPITAL****I. Working capital statement**

Subject to Completion and the New Shares Placing being subscribed in full, the Restructured Group will raise net proceeds of approximately HK\$105 million, of which approximately HK\$63.5 million will be used as working capital.

The Directors are of the opinion that, in the absence of unforeseen circumstances and subject to Completion and the New Shares Placing being subscribed in full, the Restructured Group will have sufficient working capital for the period from 1st January, 2006 up to 30th June, 2007 (the "Projection Period").

**II. Basis and assumptions**

In assessing the adequacy of the working capital of the Restructured Group, the Directors have prepared the cash flow projection of the Group for the Projection Period based on the following assumptions. Actual cash flow may differ from the prospective financial information contained in the cash flow projection since actual events may not occur as expected and such variation may be material.

## Assumptions:

1. The Restructuring Proposal is successfully implemented, the Creditors' Schemes are successfully completed and the liabilities of the Group have been discharged pursuant to the Creditors' Schemes;
2. All the Shares subject to the New Shares Placing have been successfully placed, which is on a best efforts basis by the placing agent, and the proceeds from the Subscription, the Open Offer and the New Share Placing have been received;
3. The Restructured Group will continue to engage in its existing business with the substantially the same business model after Completion;
4. Upon Completion, if agreement can be reached with the potential seller, the Company would invest up to HK\$20 million in a manufacturing facility for production of its consumer electronic products;
5. No material expenditure for purchases of fixed assets, investments or other acquisitions will be incurred during the Projection Period except for item 4 mentioned above;
6. There will be no material increases in the operating expenses of the Restructured Group;

7. There will be no material changes in existing political, legal, fiscal, foreign trade or economic conditions in Hong Kong or other countries in which the Restructured Group carries or intends to carry on business after Completion;
8. There will be no material changes in interest rates and foreign exchange rates from those currently prevailing;
9. There will be no material changes in the bases or rates of taxation applicable to the operations of the Restructured Group; and
10. There will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Restructured Group or cause substantial loss, damage or destruction to its facilities.

### III. Cash flow projections

The following is the summary of the cash flow projections of the Restructured Group for the Projection period:

	<i>HK\$'000</i>
Audited cash balance of the Group as at 31st December, 2005	59
Add: Expected net cash inflow from principal business activities for the Projection Period ( <i>Note 1</i> )	24,000
Net proceeds from the Subscription, Open Offer and New Shares Placing	105,000
	129,059
Less: Settlement of operating and administrative expenses ( <i>Note 2</i> )	(18,000)
Settlement of Indebtedness pursuant to the Creditors' Schemes ( <i>Note 3</i> )	(21,500)
Purchase of a manufacturing facilities	(20,000)
Expected cash balance at the end of the Projection Period	69,559

*Notes:*

1. The net cash inflow from principal business activities includes, among others, (i) receipt of sales of audio visual products; and (ii) payment of trade creditors and payables.
2. The operating and administrative expenses include, among others, (i) payment of salaries, (ii) rental for office premises, (iii) building management fee, (iv) research and development expenditures; and (v) taxation.
3. Based on the books and records available to the Company, the indebtedness owed by the Company to the Scheme Creditors as at 31st December, 2005 amounted to approximately HK\$351,700,000, comprising HK\$5,983,000 due to subsidiaries not consolidated and trade and other payables of HK\$293,807,000 and liabilities of HK\$51,910,000. The amounts of HK\$51,910,000 represent creditors holding an equivalent amount of pledged assets on hand (which will be transferred to the Scheme Bermuda Holdco after completion of the Group Reorganisation) and therefore the corresponding liabilities were not provided in the financial statements. Such amounts are expected to be discharged pursuant to the Creditors' Schemes. The amount of HK\$21.5 million will be used to settle the Indebtedness in full pursuant to the Creditors' Schemes, subject to a maximum deduction of approximately HK\$1 million for payment for the Scheme Administration Costs and related petition costs.

**5. COMFORT LETTER FOR THE STATEMENT OF WORKING CAPITAL  
SUFFICIENCY OF THE RESTRUCTURED GROUP UP TO 30TH JUNE, 2007**

Set out below are the texts of the letters from Ting Ho Kwan & Chan and Somerley Limited in connection with the Restructured Group's statement of working capital sufficiency up to 30th June, 2007 prepared for the purpose of inclusion in this document:

**(a) Letter from Ting Ho Kwan & Chan**

The Board of Directors  
Great Wall Cybertech Limited  
(Provisional Liquidators Appointed)

Dear Sirs,

**Re: Adequacy of Working Capital  
Great Wall Cybertech Limited (Provisional Liquidators Appointed) (The  
"Company") And Its Subsidiaries, BVI Intermediary Holdco, Shenzhen  
Rowa Digital Network Technology Limited ("SZ Rowa"), Fortune Hand  
Industries Limited, Great Wall Infrastructure Limited And Innovision  
Enterprises Limited (Hereinafter Collectively Referred To As The  
"Restructured Group")**

We refer to the circular (the "Circular") of the Company dated 29th May, 2006 relating to, inter alia, the Restructuring Proposal involving Capital Reorganisation, Subscription, Creditors' Schemes, Open Offer, Placings, Group Reorganisation, application for Whitewash Waiver and renewal of General Mandates.

In accordance with the instructions of the directors of the Company (the "directors"), we have reviewed the compilation of the cash flow projections of the Restructured Group for the period from 1st January, 2006 to 30th June, 2007 (the "Cash Flow Projections") for which the directors are solely responsible. The Cash Flow Projections have been compiled on the basis and assumptions made by the directors as set out on pages 128 to 129 of the Circular.

We also understand that the directors propose to make the following statement on page 128 of the Circular:

"The Directors are of the opinion that, in the absence of unforeseen circumstances and subject to Completion and the New Shares Placing being subscribed in full, the Restructured Group will have sufficient working capital for the period from 1st January, 2006 to 30th June, 2007 ("Projection Period")."

The directors also made representation on page 28 of the Circular that the subsidiary, SZ Rowa, did not commence any operations due to the downturn of internet related business worldwide at the time and it has remained dormant since then.

In respect of the Cash Flow Projections, we draw your attention to the fact that, as set out in our audit report dated 28th April, 2006 on pages 91 to 96 of Appendix II to the Circular (“Basis of Opinion”), because of the significance of each of (i) the possible effect of the limitations in evidence available to us; and (ii) the fundamental uncertainty relating to the going concern basis; and (iii) the non-compliance of certain disclosure requirements, we were unable to form an opinion as to whether the financial statements of the Group for the year ended 31st December, 2005 (the “Financial Statements”) gave a true and fair view of the state of affairs of the Company and of the Group as at the date and of the profit and cash flows of the Group for the year then ended and as to whether the Financial Statements had been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect of the limitations on our work as set out in the Basis of Opinion section of our audit report dated 28th April, 2006:

- (i) We have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and
- (ii) We were unable to determine whether proper books of accounts have been kept.

Any adjustments found to be necessary to the net liabilities of the Company and the Group as at 31st December, 2005 may have a consequential effect on the Cash Flow Projections.

We emphasise that Cash Flow Projections and the assumptions on which they are based relate to the future. The actual cash flows are likely to be different since anticipated events frequently do not occur as expected, and the variation may be material. Accordingly, Cash Flow Projections cannot be relied upon to the same extent as information derived from the audited financial statements for completed financial accounting periods. For these reasons, we express no opinion on how closely the cash flows eventually achieved will correspond with the Cash Flow Projections, or on whether the underlying assumptions provide a reasonable basis for the Cash Flow Projections.

We have discussed the underlying assumptions of the Cash Flow Projections with the directors. Except for any adjustments that may be required in respect of the matters described above concerning our audit report on the financial statements of the Group for the year ended 31st December, 2005 and subject to the successful completion of the Restructuring Proposal, in our opinion, so far as the accounting policies and calculations are concerned, the Cash Flow Projections

for which the directors are solely responsible have been properly compiled on the basis of the assumptions made by the directors as set out on pages 128 to 129 of the Circular and the above statement has been made by the directors after due and careful enquiry and consideration.

Yours faithfully,  
**Ting Ho Kwan & Chan**  
*Certified Public Accountants (practising)*  
Hong Kong

29th May, 2006

**(b) Letter from Somerley**

Set out below is the text of a letter from Somerley Limited in connection with the Restructured Group's statement of working capital sufficiency up to 30th June, 2007 prepared for the purpose of inclusion in this document:



Suite 2201, 22nd Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

29th May, 2006

The Directors  
Great Wall Cybertech Limited  
(Provisional Liquidators appointed)  
Room 2503B-2505  
Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

Dear Sirs,

**RESTRUCTURING PROPOSAL**

We refer to the statement made by the directors (the "Directors") of Great Wall Cybertech Limited (the "Company" and, together with its subsidiaries, the "Group") as set out on pages 128 to 129 of the document of the Company dated 29th May, 2006 (the "Document"), of which this letter forms part, under the paragraph headed "working capital".

We have discussed with the Directors and are satisfied with the bases and assumptions on which the cashflow projections (the "Projections") of the Group for the period from 1st January, 2006 to 30th June, 2007 have been prepared. We have also considered the letter dated 29th May, 2006 to the Directors from Ting Ho Kwan & Chan, the auditors of the Company, in relation to their review of the compilation of the Projections. Shareholders' attention is drawn to the fact that the assumptions on which the Projections are based could be materially affected by changes in business, economic and market conditions and other circumstances. Accordingly, we express no opinion on how closely the cash flows eventually achieved will correspond with the Projections. On the bases of the Projections made by the Directors which have been reviewed by Ting Ho Kwan & Chan, we

are of the opinion that the statement in the Document as to the sufficiency of working capital for the Restructured Group, for which the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**M. N. Sabine**  
*Chairman*

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## **APPENDIX IV EXPLANATORY STATEMENT FOR THE REPURCHASE MANDATE**

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This appendix serves as an explanatory statement, as required by the Listing Rules, to provide information to Shareholders with regard to the Repurchase Mandate to be proposed at the SGM.

### **THE LISTING RULES**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange or on another stock exchange on which the securities of the companies may be listed and recognised for this purpose by the SFC and the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

#### **1. Share capital**

As at the Latest Practicable Date, the issued share capital of the Company comprised 8,076,257,020 shares of HK\$0.01 each. If the Repurchase Mandate is approved by the Shareholders at the SGM, subject to the completion of the Restructuring Proposal, the Directors will be given the power to repurchase shares up to 10% of the issued share capital of the Company as at the date of the SGM and as enlarged by the shares to be issued pursuant to the Restructuring Proposal, which will amount to 302,851,257 Adjusted Shares based on the expected enlarged issued share capital of the Company of 3,028,512,570 Adjusted Shares upon completion of the Restructuring Proposal. The Directors are not aware of any Takeovers Code implications arising from the full exercise of the Repurchase Mandate based on the expected 75% shareholding interest of the Investor upon completion of the Restructuring Proposal (assuming the Placing Shares are subscribed in full and all the Sale Shares are successfully placed).

#### **2. Reasons for the repurchases**

The Directors believe that it is in the interests of the Company and the Shareholders to have a general authority from Shareholders to enable the Directors to repurchase shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

#### **3. Funding of repurchases**

Repurchases of shares will be funded entirely from funds legally available for the purchase in accordance with the memorandum of association and the Bye-laws of the Company and the applicable laws of Bermuda.

There might be an adverse effect on the working capital or gearing position of the Company upon the full exercise of the Repurchase Mandate when compared with the working capital and gearing position disclosed in the annual report of the Company for the year ended 31st December, 2005. However, the Directors would not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances,

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## APPENDIX IV EXPLANATORY STATEMENT FOR THE REPURCHASE MANDATE

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have a material adverse effect on the working capital position of the Company or the gearing level which in the opinion of the Directors is from time to time appropriate for the Company.

### **4. General**

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates, has any present intention to sell any shares to the Company if the Repurchase Mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will only exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

If as a result of a repurchase of the shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder, or group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

The Directors have no intention to purchase Shares to such an extent which will result in the amount of Shares held by the public being reduced to less than 25%.

### **5. Share prices**

Trading in the Shares has been suspended since 24th March, 2003 and remained suspended as at the Latest Practicable Date.

### **6. Share repurchases made by the Company**

The Company had not repurchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the date of this document.

## 1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than those relating to the Investor or its shareholders, directors and Concert Parties) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The directors of the Investor jointly and severally accept full responsibility for the accuracy of the information relating to the Investor contained in this document and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions relating to the Investor expressed in this document have been arrived at after due and careful consideration and there are no other facts relating to the Investor not contained in this document, the omission of which would make any statement relating to therein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests in the Company

#### (i) Directors' interests in Shares

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

Name of Director	Capacity/ Nature of interests	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Wu ( <i>Note</i> )	Corporate	618,720,250	–	7.7%

*Note:* These Shares are held by Vandor Profits Limited (“Vandor Profits”), a company beneficially wholly owned by Mr. Wu.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company have interest or short positions in the shares, underlying shares and debentures or other securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required in the Listing Rules pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(ii) *Substantial Shareholders*

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons had interests 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 who are, directly or indirectly, deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital.

Name of Shareholders	Capacity/ Nature of interests	Number of Shares held		Approximate percentage of shareholding in the Company
		Long position	Short position	
Citigroup Inc.	Corporate	1,811,940,295	–	22.4%
Vandor Profits	Corporate	618,720,250	–	7.7%

Save as disclosed herein, no person as at the Latest Practicable Date was interested directly or indirectly, deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or has any options in respect of such capital.

(iii) *The Underwriter and parties acting in concert with it*

As at the Latest Practicable Date, the Underwriter, its director and parties acting in concert with any of them has no other interests in the securities of the Company.

*(iv) Others*

As at the Latest Practicable Date,

- (aa) none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor Somerley nor Tanrich nor Altus Capital nor any other advisor to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had any interest in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company;
- (bb) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of clauses (1), (2), (3) and (4) of the definition of associate under the Code, the Investor or with any party acting in concert with the Investor; and
- (cc) no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company.

**(b) Dealings in Shares***(i) Directors*

None of the Directors or parties acting in concert with any of them had dealt in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company during the period that commenced on 21st October, 2005 (being the date which is six months prior to the date of the Announcement) and ended on the Latest Practicable Date (the “Relevant Period”).

*(ii) The Underwriter and parties acting in concert with it*

During the Relevant Period, save for entering into the Underwriting Agreement, neither the Underwriter nor any persons acting in concert with it had dealt in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

*(iii) Others*

During the Relevant Period, none of the subsidiaries of the Company, nor any pension fund of the Company or any of its subsidiaries, nor Somerley, nor Tanrich nor Altus Capital or any other advisor to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had dealt for value in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

**(c) Interests and dealings in the Investor**

The Investor is a private investment holding company incorporated in the British Virgin Islands with limited liability for the purpose of making the Restructuring Proposal to the Provisional Liquidators, providing working capital to the Group and entering into the relevant agreements. Since its incorporation, save for the aforesaid business activities, the Investor has not carried on any other businesses. None of the Directors nor the Company had any interest in the securities issued by the Investor nor had any of them dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Investor during the Relevant Period.

**3. MARKET PRICES**

Trading in the Shares has been suspended since 24th March, 2003 and has not been resumed up to the Latest Practicable Date. The closing price per Share immediately before suspension in trading was HK\$0.01.

**4. MATERIAL CONTRACTS**

Save as disclosed below, no contracts have been entered into by the Company and its subsidiaries (not being contracts entered into in the ordinary course of business) after the date two years immediately preceding the date of the Announcement and are or may be material:

- (a) the Restructuring Agreement;
- (b) the Costs Escrow Agreement;
- (c) the Subscription Agreement;
- (d) the Underwriting Agreement;
- (e) the Sale Shares Placing Agreement;
- (f) the New Shares Placing Agreement;
- (g) the loan agreement dated 9th July, 2004 entered into between GW Infrastructure and the Investor, pursuant to which the Investor agreed to make a facility of HK\$3 million available to GW Infrastructure (the “Loan”); and
- (h) the share mortgage dated 9th July, 2004 entered into between Fortune Hand and the Investor, pursuant to which Fortune Hand agreed to mortgage the one share of US\$1.00 of GW Infrastructure (being the entire issued share capital of GW Infrastructure) to the Investor as security of the Loan.

## 5. LITIGATIONS AND CLAIMS

The following are particulars of litigation or arbitration of material importance in which the Company or any of its subsidiaries are engaged and litigation or claims of material importance which are pending or threatened by or against the Company or any of its subsidiaries:

Bank of East Asia Limited (“BEA”) has petitioned to the High Court of Hong Kong Special Administrative Region for the winding up of the Company on 25th March, 2003. The petition was filed as the Company has failed to satisfy the Statutory Demand issued by BEA to the Company on 2nd December, 2002 under which BEA demanded the Company to pay a sum of approximately HK\$17.8 million and further interest for trade loans which the Company has guaranteed for its wholly-owned subsidiary, Video Epoch Limited.

Saved as disclosed, neither the Company nor any other members of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

## 6. EXPERTS

Each of Somerley, Tanrich, Altus Capital and Ting Ho Kwan & Chan has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter(s) and/or references to its name in the form and context in which it appears.

The following are the qualifications of the experts who have provided their advices, reports and valuation (as the case may be), which are contained in this document:

<b>Name</b>	<b>Qualification</b>
Somerley	A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in the SFO
Tanrich	A licensed corporation under SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as set out in the SFO
Altus Capital	A licensed corporation under the SFO to conduct type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in the SFO
Ting Ho Kwan & Chan	Certified Public Accountant (practising)

As at the Latest Practicable Date, none of Somerley, Tanrich, Altus Capital nor Ting Ho Kwan & Chan was beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any

interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company (i.e. the annual report of the Company for the year ended 31st December, 2005) were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business or interest that competes or may compete directly or indirectly with the business of the Group or any other conflicts of interest with the Group.

## 8. DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into any service contract with any company in the Group or associated companies which are in force and which have more than 12 months to run, or which has been entered into or amended within six months before the date of Announcement.

## 9. MISCELLANEOUS

- (a) No agreement, arrangement or understanding (including any compensation arrangement) is existed between the Investor or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Whitewash Waiver.
- (b) No material contract entered into by the Investor in which any director of the Company has a material personal interest.
- (c) The secretary and qualified accountant of the Company is Mr. Hong Kin Choy, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (d) The registrars of the Company is Butterfield Fund Services (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda and the Hong Kong branch registrar of the Company is Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) The registered office of the Company is at Canon's Court, 22 Victoria Street Hamilton HM 12, Bermuda and the principal place of business of the Company is at 26th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong. The correspondence address of the Company is at Room 2503B-2525, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.
- (f) The registered office of the Investor is situated at the office of Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands.

- (g) The executive Directors include Messrs Wu Shaozhang, Wong Kwok Wing, Tse On Kin, Yuen Chung Yan, John and Chen Weixiong. The Independent non-executive Directors include Messrs Lee Shue Shing, Wu Xiaoke and Poon Kwok Shin, Edmond.
- (h) The Investor is beneficially owned as to 51% by a trust of which Mr. Wong and his family members are discretionary beneficiaries as to 20% by Mr. Chu Kwok Chi Robert and as to 29% by Mr. Cheng Hairong. The correspondence address of the Investor is at Room 2503B-2505, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.
- (i) No person had irrevocably committed themselves to vote for or against the Restructuring Proposal including the Whitewash Waiver.
- (j) Somerley is the financial adviser to the Company, the registered office of which is situated at Suite 2201, 22nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (k) Tanrich is one of the Joint Independent Financial Advisers to the Independent Board Committee and Independent Shareholders, the registered office of which is situated at 16/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (l) Altus Capital is one of the Joint Independent Financial Advisers to the Independent Board Committee and Independent Shareholders, the registered office of which is situated at 8/F., Hong Kong Diamond Exchange Building, 8 Duddell Street, Central, Hong Kong.
- (m) Ting Ho Kwan & Chan are the auditors of the Company, the registered office of which is situated at 9/F, Tung Ning Building, 249-253 Des Voeux Road Central, Hong Kong.
- (n) The English text of this document and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours at the office of Cheung, Tong & Rosa at rooms 1621-33, 16/F., Sun Hung Kai Centre, 30 Harbour Road, Hong Kong; (ii) on the website ([www.somerley.com.hk/clients/great\\_wall/index.html](http://www.somerley.com.hk/clients/great_wall/index.html)); and (iii) the website of the SFC ([www.sfc.hk](http://www.sfc.hk)) from the date of this document up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the two financial years ended 31st December, 2005;

- (c) the letter from the Independent Board Committee, the text of which is set out on page 37 of this document;
- (d) the letter from Tanrich and Altus Capital to the Independent Board Committee and Independent Shareholders, the text of which are set out on pages 38 to 56 of this document;
- (e) the comfort letter in connection with the pro forma financial information of the Restructured Group from Ting Ho Kwan & Chan, the text of which is set out in Appendix III to this document;
- (f) the comfort letters for the statement of working capital sufficiency of the Restructured Group from each of Ting Ho Kwan & Chan and Somerley, the texts of which are set out in Appendix III to this document;
- (g) the material contracts referred to in the section headed “Material contracts” in this Appendix; and
- (h) the written consents referred to in the section headed “Consents” in this Appendix.

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## NOTICE OF SGM

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### **GREAT WALL CYBERTECH LIMITED**

**長城數碼廣播有限公司\***

**(Provisional Liquidators Appointed)**

**(Stock code: 689)**

*(incorporated in Bermuda with limited liability)*

Notice is hereby given that a special general meeting (“SGM”) of Great Wall Cybertech Limited (Provisional Liquidators Appointed) (the “Company”) will be held at 10:30 a.m., on 22nd June, 2006, at The Kimberley Hotel, 28 Kimberley Road, Tsimshatsui, Hong Kong for the purpose of considering and, if though fit, passing, with or without modification, the resolutions numbered 2 and 3 as special resolutions and the resolutions numbered 1 and from 4 to 11 as ordinary resolutions, as set out below:

#### **STAGE I CAPITAL REORGANISATION OF THE COMPANY**

##### **ORDINARY RESOLUTION**

1. **“THAT**, conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting its approval, which may be conditional, to the listing of, and permission to deal in, the new adjusted ordinary shares of the Company of HK\$0.01 each (“Adjusted Shares”) resulting from the Share Consolidation (as defined below), with effect from 9:30 a.m. on the next business day (not being a Saturday) following the date on which this resolution is passed,
  - (a) every hundred (100) issued shares of par value HK\$0.01 each in the capital of the Company (“Shares”) be consolidated into one (1) share of HK\$1.00 each (“Consolidated Share”) in the capital of the Company (the “Share Consolidation”);
  - (b) fractions of Consolidated Shares arising on the Share Consolidation will not be issued to the holders of the Shares who would otherwise be entitled thereto but instead such fractions shall be aggregated and sold for the benefit of the Company;
  - (c) all of the Consolidated Shares resulting from the Share Consolidation shall rank pari passu in all respects with each other and have the same rights and privileges and be subject to the restrictions contained in the bye-laws of the Company;

\* For identification purpose only

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## NOTICE OF SGM

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- (d) the provisional liquidators of the Company and the directors of the Company be and are hereby authorized generally to do all things appropriate to effect and implement any of the foregoing.”

### SPECIAL RESOLUTION

- 2. **“THAT**, conditional upon the passing of the resolution numbered 1 set out in this notice (the “Notice”):
  - (a) the issued share capital of the Company be reduced by canceling the paid-up capital to the extent of HK\$0.99 on each Consolidated Share so that each of such issued shares shall be treated as one fully paid share of HK\$0.01 each in the capital of the Company (“Adjusted Share”) (the “Stage I Capital Reduction”);
  - (b) the surplus arising from the Stage I Capital Reduction be credited to the contributed surplus account of the Company and the directors of the Company be and are hereby authorized to apply the amounts standing to the credit of the contributed surplus account in such manner as may be permitted by the bye-laws of the Company and all applicable laws;
  - (c) all of the Adjusted Shares resulting from the Stage I Capital Reduction shall rank pari passu in all respects with each other and have the same rights and privileges and be subject to the restrictions contained in the bye-laws of the Company; and
  - (d) the provisional liquidators of the Company and the directors of the Company be and are hereby authorized generally to do all things appropriate to effect and implement any of the foregoing.”

## STAGE II CAPITAL REORGANISATION OF THE COMPANY

### SPECIAL RESOLUTION

- 3. **“THAT**, conditional upon closing having taken place under the Restructuring Agreement (as defined in the resolution numbered 4 of the Notice),
  - (a) the entire amount standing to the credit of (i) the share premium account of the Company (including the existing share premium and the share premium arising from the issue of the Subscription Shares (as defined in the resolution numbered 5 of the Notice), the Offer Shares (as defined in the resolution numbered 6 of the Notice) and the Placing Shares (as defined in the resolution numbered 7 of the Notice); (2) the capital redemption reserve account of the Company and (3) the capital reserve account of the Company be cancelled (“Stage II Capital Reduction”);

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- (b) the credit arising from the Stage II Capital Reduction be credited to the contributed surplus account of the Company and the directors of the Company be authorised to utilise the credit in the contributed surplus account in such manner as may be permitted by the bye-laws of the Company and all applicable laws, including to eliminate the accumulated losses of the Company as at 31st December, 2005; and
- (c) the provisional liquidators of the Company and the directors of the Company be and are hereby authorized generally to do all things appropriate to effect and implement any of the foregoing.”

### IMPLEMENTATION OF THE COMPANY’S RESTRUCTURING PROPOSAL

#### ORDINARY RESOLUTIONS

- 4. “**THAT**, conditional upon passing of the resolutions numbered 5 to 9 set out in the Notice,
  - (a) the entry by the Company into the restructuring agreement dated 13th April 2006 between the Company, Joseph K C Lo and Lai Kar Yan, Derek (the provisional liquidators of the Company, the “Provisional Liquidators”) and Climax Associates Limited (the “Restructuring Agreement”, a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for identification purposes) and the transactions contemplated thereby, including but not limited to the Subscription (as defined in the resolution numbered 5 as set out in the Notice), the Additional Issue (as defined in the resolution numbered 5 as set out in the Notice), the Group Reorganisation (as defined in the resolution numbered 5 as set out in the Notice), the Open Offer (as defined in the resolution numbered 6 as set out in the Notice), the New Shares Placing (as defined in the resolution numbered 7 as set out in the Notice), and the performance thereof by the Company, be and are hereby confirmed, ratified and approved; and
  - (b) the provisional liquidators of the Company and the directors of the Company be and are hereby authorized, to do all such things and take all such actions as they may consider to be necessary or desirable to give effect to the terms of the Restructuring Agreement, including without limiting the foregoing, to complete the transactions contemplated by the Restructuring Agreement.”
- 5. “**THAT**, conditional upon (i) passing of the resolutions numbered 1, 2, 4 and 6 to 9 set out in the Notice; (ii) the Share Consolidation (as defined in the resolution numbered 1 of the Notice) and the Stage I Capital Reduction (as defined in the resolution numbered 2 of the Notice) becoming effective; (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to

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grant listing of and permission to deal in the Subscription Shares (as hereinafter defined) and the Additional Shares (as hereinafter defined) and (iv) if applicable, the Bermuda Monetary Authority granting permission for the issue and allotment of the Subscription Shares and the Additional Shares:

- (a) the entry by the Company into the subscription agreement dated 13th April, 2006 between the Company, the Provisional Liquidators (as defined in the resolution numbered 4 as set out in the Notice) and Climax Associates Limited (“the Investor”) (the “Subscription Agreement”, a copy of which has been produced to the SGM marked “B” and signed by the chairman of the SGM for identification purposes), the transactions contemplated thereunder and the performance thereof by the Company, be and are hereby confirmed, ratified and approved;
  - (b) the allotment and issue of the 2,075,000,000 new Adjusted Shares (as defined in the resolution numbered 2 of the Notice) (the “Subscription Shares”) to the Investor, pursuant to the terms of the Subscription Agreement (the “Subscription”) be and is hereby approved;
  - (c) the allotment and issue of the 352,750,000 new Adjusted Shares (the “Additional Shares”), credited as fully paid, to the Investor, pursuant to the terms of the Subscription Agreement, on the basis of 17 Additional Shares for every 100 Subscription Shares, by way of capitalization of the amounts standing to the credit of the contributed surplus account of the Company (the “Additional Issue”), be and is hereby approved;
  - (d) the Subscription Shares and the Additional Shares shall rank pari passu with each other in all respects and with the issued shares in the capital of the Company on the date of their issue and allotment; and
  - (e) the provisional liquidators of the Company and the directors of the Company be and are hereby authorized to do all such things and take all such actions as they may consider to be necessary or desirable to give effect to the terms of the Subscription Agreement, including without limiting the foregoing, to complete the transactions contemplated by the Subscription Agreement.”
6. **“THAT**, conditional upon (i) passing of the resolutions numbered 1, 2, 4, 5 and from 7 to 9 set out in the Notice; (ii) the Share Consolidation (as defined in the resolution numbered 1 of the Notice) and the Stage I Capital Reduction (as defined in the resolution numbered 2 of the Notice) becoming effective; (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant listing of and permission to deal in the Offer Shares (as hereinafter defined); (iv) if applicable, the Bermuda Monetary Authority granting permission for the issue and allotment of the Offer Shares (as hereinafter defined); (v) the Restructuring Agreement (as defined in the resolution numbered 4 of the Notice) becoming unconditional in all respects (save as the condition requiring the Open Offer becoming unconditional and/or the obligations of the Underwriter (as defined hereinafter) under the Underwriting Agreement (as

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defined hereinafter) not being terminated); (vi) the obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter in accordance with the terms thereof and (vii) the granting of the Whitewash Waiver (as defined in the resolution numbered 9 of the Notice) by the Executive to the Investor:

- (a) the issue by way of an open offer (the “Open Offer”) of 80,762,570 Adjusted Shares (as defined in the resolution numbered 2 of the Notice) (“Offer Shares”) to the holders of shares in the Company whose names appeared on the register of members of the Company at the close of business of a date to be fixed by the directors of the Company (the “Directors”) on the basis of assured allotments of nine Offer Shares for every five Adjusted Shares (as defined in the resolution numbered 1 of the Notice) at the subscription price of HK\$0.06 per Offer Share and otherwise on the terms of the Open Offer as set out in the circular of the Company dated 29th May, 2006 be and is hereby approved, and the Directors be and are hereby authorised to allot and issue the Offer Shares upon acceptance or by way of excess application by the shareholders of the Company pursuant to and in accordance with the Open Offer;
  - (b) the entry by the Company into the underwriting agreement dated 13th April 2006 entered into between the Company, the Provisional Liquidators (as defined in the resolution numbered 4 as set out in the Notice) and Grand Vinco Capital Limited (the “Underwriter”) (the “Underwriting Agreement”, a copy of which has been produced to the SGM marked “C” and signed by the chairman of the SGM for identification purposes), the transactions contemplated thereunder and the performance thereof by the Company, be and are hereby confirmed, ratified and approved; and
  - (c) the provisional liquidators of the Company and the Directors be and are hereby authorized to do all such things and take all such actions as they may consider to be necessary or desirable to give effect to the terms of the Underwriting Agreement, including without limiting the foregoing, to complete the transactions contemplated by the Underwriting Agreement.”
7. **“THAT**, conditional upon (i) passing of the resolutions numbered 1, 2, from 4 to 6 and from 8 to 9 set out in the Notice; (ii) the Share Consolidation (as defined in the resolution numbered 1 of the Notice) and the Stage I Capital Reduction (as defined in the resolution numbered 2 of the Notice) becoming effective; (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant listing of and permission to deal in the Placing Shares (as hereinafter defined); (iv) if applicable, the Bermuda Monetary Authority granting permission for the issue and allotment of the Placing Shares; (v) the Restructuring Agreement (as defined in the resolution numbered 4 of the Notice) becoming unconditional in all respects (save as the condition requiring the New Shares Placing Agreement (as defined hereinafter) becoming unconditional and/or the obligations of the Placing Agent (as defined hereinafter) under the New Shares

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Placing Agreement not being terminated) and (vi) the obligations of the Placing Agent under the New Shares Placing Agreement not being terminated by the Placing Agent in accordance with the terms thereof:

- (a) the entry by the Company into the new shares placing agreement dated 13th April, 2006 between the Company, the Provisional Liquidators (as defined in the resolution numbered 4 as set out in the Notice) and Grand Vinco Capital Limited (the “Placing Agent”) (the “New Shares Placing Agreement”, a copy of which has been produced to the SGM marked “D” and signed by the chairman of the SGM for identification purposes), the transactions contemplated thereunder and the performance thereof by the Company, be and are hereby confirmed, ratified and approved;
  - (b) the directors of the Company be and are hereby authorized to allot and issue 374,627,374 new Adjusted Shares (as defined in resolution numbered 2 of this Notice) (the “Placing Shares”), pursuant to the terms of the New Shares Placing Agreement;
  - (c) the Placing Shares shall rank pari passu in all respects with each other and with the issued shares in the capital of the Company on the date of their issue and allotment; and
  - (d) the provisional liquidators of the Company and the directors of the Company be and are hereby authorized to do all such things and take all such actions as they may consider to be necessary or desirable to give effect to the terms of the New Shares Placing Agreement, including without limiting the foregoing, to complete the transactions contemplated by the New Shares Placing Agreement.”
8. **“THAT**, conditional upon approval of the resolutions numbered 1, 2, from 4 to 7 and 9 set out in the Notice, the group reorganisation contemplated under the Restructuring Agreement (as defined in the resolution numbered 4 of the Notice) (the “Group Reorganisation”) be and is hereby approved, and the provisional liquidators of the Company and the directors of the Company be and are hereby authorized to do all acts and things as may be necessary and expedient in connection with the implementation of the Group Reorganisation.”

### **WHITEWASH WAIVER**

9. **“THAT**, the waiver (“Whitewash Waiver”) granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of the Investor (as defined in the resolution numbered 5 as set out in the Notice) and parties acting in concert with it, to make a general offer for all the shares of the Company not already owned by it or agreed to be acquired upon completion of the Restructuring Agreement (as defined in the resolution numbered 4 as set out in the Notice), be and is hereby approved and the provisional liquidators of the

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Company and the directors of the Company be and are hereby authorized to do all such things and take all such action as they may consider to be necessary or desirable to give effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

### **GENERAL MANDATE TO ALLOT, ISSUE AND DEAL WITH ADDITIONAL ADJUSTED SHARES**

#### **ORDINARY RESOLUTION**

10. “**THAT**, conditional upon closing having taken place under the Restructuring Agreement (as defined in the resolution numbered 4 as set out in the Notice):
- (a) subject to paragraph 10(b) below, the directors of the Company be and are hereby generally and unconditionally authorized to exercise during the Relevant Period (as defined below) all the powers of the Company to allot, issue and deal with additional Adjusted Shares and to make or grant offers, agreements and options (including warrants, bonds and debentures, notes and any securities which carry rights to subscribe for or are convertible into ordinary shares of the Company) which would or might require the exercise of any of such powers during or after the end of the Relevant Period;
  - (b) the aggregate nominal amount of the Adjusted Shares allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the directors of the Company pursuant to approval of paragraph 10(a) above, other than pursuant to (i) a Rights Issue (as defined below); or (ii) an issue of ordinary shares of the Company upon the exercise of rights of subscription or conversion under the terms of any securities which are convertible into ordinary shares of the Company; or (iii) an issue of ordinary shares of the Company by way of scrip dividend pursuant to the Bye-laws of the Company from time to time; or (iv) the exercise of any option granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to eligible participants of the Company and/or its subsidiaries, of options to subscribe for, or rights to acquire, shares of the Company; shall not in total exceed 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Restructuring Agreement;
  - (c) for the purpose of this resolution, “Relevant Period” means the period from completion of the Restructuring Agreement until whichever is the earliest of:
    - (i) the conclusion of the next annual general meeting of the Company; or
    - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; and

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the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, or any applicable laws, to be held.”

“Right Issue” means an offer of shares for subscription open for a fixed period by the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong).”

### GENERAL MANDATE TO PURCHASE ADJUSTED SHARES

#### ORDINARY RESOLUTION

11. **“THAT**, conditional closing having taken place under the Restructuring Agreement (as defined in the resolution numbered 4 as set out in the Notice),
- (a) the directors of the Company be and are hereby generally and unconditionally authorized to exercise during the Relevant Period (as defined below) all the powers of the Company to purchase Adjusted Shares in the capital of the Company, subject to and in accordance with applicable laws;
  - (b) the aggregate nominal amount of the Adjusted Shares which may be purchased pursuant to the approval in paragraph 11(a) above shall not in total exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Restructuring Agreement;
  - (c) for the purpose of this resolution, “Relevant Period” means the period from completion of the Restructuring Agreement until whichever is the earliest of:
    - (i) the conclusion of the next annual general meeting of the Company; or
    - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; and

the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, or any applicable laws, to be held.”

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### EXTENSION MANDATE

### ORDINARY RESOLUTION

12. “**THAT**, conditional upon completion of the Restructuring Agreement (as defined in the resolution numbered 4 as set out in the Notice) and subject to the availability of unissued share capital and conditional upon the passing of resolutions numbered 10 and 11 as set out in the Notice, the aggregate nominal amount of Adjusted Shares which are purchased by the Company pursuant to and in accordance with resolution numbered 11 as set out in the Notice shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with resolution numbered 10 as set out in the Notice.”

Yours faithfully,

For and on behalf of the Board  
**Great Wall Cybertech Limited**  
**(Provisional Liquidators Appointed)**  
**Derek Lai**  
*Joint and Several Provisional Liquidator*

For and on behalf of the Board  
**Great Wall Cybertech Limited**  
**(Provisional Liquidators Appointed)**  
**Tse On Kin**  
*Director*

Hong Kong, 29th May, 2006

*Notes:*

- (a) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more than one proxies to attend and, vote in his stead. A proxy need not be a member of the Company.
- (b) In order to be valid, the form of proxy must be deposited at the Company’s branch share registrar together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (c) In the case of joint holders of a share, any one of such holders may vote at the meeting either in person or by proxy in respect of such share, but if one of such joint holders is present at the meeting personally or by proxy, the vote of the person so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
- (d) In relation to resolutions numbered 10 and 12 above, approval is being sought from the shareholders for the grant to the directors of a general mandate to authorize the allotment, issue and dealing with additional shares in the capital of the Company under the Listing Rules.
- (e) In relation to resolution numbered 11 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate for the benefit of the shareholders.
- (f) Resolutions numbered 4 to 9 shall be voted by way of a poll of the Independent Shareholders (as defined in the document in which the notice convening this meeting is contained).