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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Prime Investments Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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## PRIME INVESTMENTS HOLDINGS LIMITED

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 721)

### PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; PROPOSED OPEN OFFER IN THE PROPORTION OF FIVE OFFER SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE; AND APPLICATION FOR WHITEWASH WAIVER

Independent Financial Advisers to the  
Independent board committee of Prime Investments Holdings Limited



大華證券(香港)有限公司

GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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A letter of advice from Grand Cathay, to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 43 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 29 of this circular.

It should be noted that the last day of dealing in the Shares on a cum-entitlement basis is Tuesday, 16 October 2007. Existing Shares will be dealt with on an ex-entitlement basis from Wednesday, 17 October 2007.

To qualify for the Open Offer, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be Friday, 26 October 2007. In order to be registered as members on the Record Date, any transfers of Shares (with the relevant share certificates) must be lodged to the Company's Hong Kong branch share registrars, Tricor Tengis Limited, for registration by 4:00 p.m. on Thursday, 18 October 2007.

A notice convening the SGM to be held at Suite 6305, 63/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 11:00 a.m. on Friday, 26 October 2007 is set out on pages 102 to 104 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of the Company in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire.

It should be noted that if prior to the Latest Time for Termination,

- (1) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
  - (b) the occurrence of 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 hereof) 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 or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of this circular, the Prospectus Documents or other announcements or circulars in connection with the Open Offer.

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed. The obligations of all parties under the Underwriting Agreement shall cease and determine and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

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## DEFINITIONS

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

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Announcement”	the announcement dated 5 September 2007 announced by the Company relating to, among other things, the proposed increase in the authorised share capital of the Company, the Open Offer and the Whitewash Waiver
“Application Form(s)”	the form(s) of application for use by the Qualifying Shareholders to apply for the Offer Shares
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China Water”	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the main board of Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda, as amended
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time)
“Company”	Prime Investments Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued Shares of which are listed on the main board of Stock Exchange
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates

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## DEFINITIONS

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“Grand Cathay”	Grand Cathay Securities (Hong Kong) Limited, a licensed corporation under the SFO licensed to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management), regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer and the Whitewash Waiver
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee comprising all non-executive Directors namely Mr. Lan Ning, Mr. Chan Yan Ting, Dr. Chan Po Fun, Peter, Mr. Ding Xiaobin and Mr. Chan Wing Chung, and independent non-executive Directors namely Dr. Cheung Wai Bun, Charles, Mr. Zhang Yong and Mr. Gu Qiu Rong, to advise the Independent Shareholders as to whether the Open Offer and the terms of the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole
“Independent Shareholders”	Shareholders who are not involved or interested in the Open Offer and Whitewash Waiver, and other than the Underwriter and the parties acting in concert with it and their respective associates and the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates, who are required by the Takeovers Code and the Listing Rules to abstain from voting in respect of the resolution to approve the Open Offer and the Whitewash Waiver
“Latest Acceptance Date”	being 4:00 p.m. 12 November 2007 or such other date and/or time as the Underwriter and the Company may agree as the latest date for acceptance and payment in respect of provisional allotments and applications for excess under the Open Offer
“Latest Lodging Date”	being 4:00 p.m. 18 October 2007 or such other date and/or time as the Underwriter and the Company may agree as the latest time for lodging transfer of Shares in order to be qualified for the Open Offer
“Latest Practicable Date”	5 October 2007 being the latest practicable date prior to the printing of this circular for ascertaining information for inclusion in this circular

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## DEFINITIONS

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“Latest Time for Termination”	being 4:00 p.m. on the third Business Day after the Latest Acceptance Date or such other time as may be agreed between the Underwriter and the Company
“Last Trading Date”	29 August 2007, being the last trading day of the Shares prior to the release of the Announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offer Share(s)”	1,975,755,185 Shares to be offered to the Qualifying Shareholders for subscription pursuant to the Open Offer
“Open Offer”	the proposed issue of Offer Shares on the basis of five Offer Shares for every one Share to Qualifying Shareholders by way of open offer on the terms to be set out in the Prospectus Documents
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not eligible to participate in the Open Offer
“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) as shown on such register is(are) outside Hong Kong
“Poly Good”	Poly Good Group Limited, a substantial Shareholder holding 31,032,857 Shares representing approximately 7.85% of and existing entire issued share capital of the Company as at the Latest Practicable Date. The entire issued share capital of Poly Good is beneficially owned by Mr. Chan Yan Ting, a non-executive Director
“Prohibited Shareholders”	Overseas Shareholders, to whom the Directors, based on legal opinions provided by legal advisers and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Offer Shares
“PRC”	the Peoples’ Republic of China
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the Application Form

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## DEFINITIONS

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“Prospectus Posting Date”	29 October 2007 or such later date as the Underwriter may agree in writing with the Company
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Prohibited Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	26 October 2007, being the date by reference to which entitlements to the Open Offer will be determined
“Registrar”	Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, being the Company’s Hong Kong branch share registrar
“SFC”	the Securities and Futures Commission in Hong Kong
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the increase in authorised share capital of the Company, the Open Offer and the Whitewash Waiver
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Specified Event”	an event occurring or matter arising on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	subscription price of HK\$0.101 per Offer Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	China Water Investments Limited, a company incorporated in the British Virgin Islands and is a substantial Shareholder, holding approximately 17.25% of the entire issued share capital of the Company as the date of this circular. The Underwriter is a wholly owned subsidiary of China Water

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## DEFINITIONS

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“Underwriting Agreement”	the underwriting agreement dated 29 August 2007 entered into between the Company and the Underwriter in relation to the Open Offer
“Whitewash Waiver”	a waiver from the obligation of the Underwriter and parties acting in concert with it to make a mandatory offer under Rule 26 of the Takeovers Code as a result of the acquisition of voting rights in the Company by virtue of the subscription of the Offer Shares by the Underwriter and parties acting in concert with it under the Open Offer and pursuant to the Underwriting Agreement pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“%”	per cent

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## SUMMARY OF THE OPEN OFFER

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*The following information is derived from, and should be read in conjunction with, the full text of this circular.*

Basis of the Open Offer:	five Offer Shares for every one Share held on the Record Date
Subscription Price:	HK\$0.101 per Offer Share payable in fully upon acceptance
Number of Shares in issue: as at the Latest Practicable Date	395,151,037 Shares
Number of Offer Shares:	1,975,755,185 Offer Shares, representing 500% of the existing issued share capital of the Company and representing 83.33% of the issued share capital of the Company as enlarged by the Open Offer. As the Underwriter has indicated that it will take up its assured entitlement, the number of Offer Shares available for underwriting shall be 1,634,846,095 Offer Shares
Amount to be raised by the Open Offer:	approximately HK\$199.5 million
Basis of entitlement:	Offer Shares will be allotted in the proportion of five Offer Shares for every one Share held by the Qualifying Shareholders on the Record Date. No Offer Shares will be offered to the Prohibited Shareholders (if any)
Right of excess application:	the Qualifying Shareholders will not have the right to apply for excess Offer Shares



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## EXPECTED TIMETABLE

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*The expected timetable for the Open Offer set out below is for indicative purposes only and has been prepared on the assumption that all the conditions of the Open Offer will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.*

2007

Last day of dealings in the Shares on a cum-entitlement basis	Tuesday, 16 October
Commencement of dealings in the Shares on an ex-entitlement basis	Wednesday, 17 October
Latest time for lodging transfers of Shares in order to qualify for the Open Offer	4:00 p.m. on Thursday, 18 October
Register of members closes (both dates inclusive)	Friday, 19 October to Friday, 26 October
Latest time for lodging forms of proxy for the SGM	11:00 a.m. on Wednesday, 24 October
SGM to be held	11:00 a.m. on Friday, 26 October
Announcement of the results of the SGM	by 7:00 p.m. Friday, 26 October
Record Date	Friday, 26 October
Register of members reopens	Monday, 29 October
Despatch of Prospectus Documents	Monday, 29 October
Latest time for the payment for and acceptance of the Offer Shares	4:00 p.m. on Monday, 12 November
Latest time for the Open Offer to become unconditional	4:00 p.m. on Thursday, 15 November
Announcement of the results of the Open Offer	by 7:00 p.m. Thursday, 15 November
Despatch of certificates for the Offer Shares	Monday, 19 November
Dealing in Offer Shares commences	Wednesday, 21 November

All times stated above refer to Hong Kong times. Dates stated in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable for the Open Offer will be announced as appropriate.

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## EXPECTED TIMETABLE

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### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR OFFER SHARES**

The latest time for acceptance of and payment for Offer Shares will not take place if there is:

1. a tropical cyclone warning signal number 8 or above, or
2. a “black” rainstorm warning
  - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 12 November 2007. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same Business Day; and
  - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 12 November 2007. Instead the latest time of acceptance of any payment for the Open Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Open Offer does not take place on 12 November 2007, the dates mentioned in the section headed “Expected timetable” in this circular may be affected. An announcement will be made by the Company in such event.

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## LETTER FROM THE BOARD

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### PRIME INVESTMENTS HOLDINGS LIMITED

*(incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

(Stock Code: 721)

*Executive Directors:*

Ms. Wang Wen Xia  
Mr. Pong Po Lam, Paul  
Mr. Wong Kwong Chi, Simon

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Non-executive Director:*

Mr. Lan Ning  
Mr. Chan Yan Ting  
Dr. Chan Po Fun, Peter  
Mr. Ding Xiaobin  
Mr. Chan Wing Chung

*Principal place of business in Hong Kong:*

Suite 6305, 63/F  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

*Independent non-executive Directors:*

Dr. Cheung Wai Bun, Charles  
Mr. Zhang Yong  
Mr. Gu Qiu Rong

8 October 2007

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;  
PROPOSED OPEN OFFER IN THE PROPORTION OF FIVE OFFER SHARES  
FOR EVERY ONE SHARE HELD ON THE RECORD DATE;  
AND  
APPLICATION FOR WHITEWASH WAIVER**

#### INTRODUCTION

On 5 September 2007, the Company announced that, among other things:

- (i) the Board proposed to seek the approval by way of ordinary resolution at the SGM by the Shareholders to increase its authorised share capital from HK\$20,000,000 divided into 2,000,000,000 Shares to HK\$300,000,000 divided into 30,000,000,000 Shares by creating an additional 28,000,000,000 unissued Shares;

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## LETTER FROM THE BOARD

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- (ii) the Company entered into the Underwriting Agreement dated 29 August 2007 with the Underwriter, pursuant to which the Company proposed to raise approximately HK\$199.5 million before expenses by issuing 1,975,755,185 Offer Shares at a price of HK\$0.101 per Offer Share by way of Open Offer on the basis of five Offer Shares for every one Share held on the Record Date; and
- (iii) the application of Whitewash Waiver.

The purpose of this circular is to provide you with further details regarding, among other things, (i) the increase in authorised share capital of the Company, the Open Offer and the Whitewash Waiver (ii) relevant pro forma financial information of the Group as a result of completion of the Open Offer; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Open Offer and the Whitewash Waiver; and (iv) the advice of Grand Cathay to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer and the Whitewash Waiver, and (v) the notice of SGM.

### PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

To cater for the issue of the Offer Shares, the Board proposed to seek the approval by way of ordinary resolution at the SGM by Shareholders of an increase in its authorised share capital from HK\$20,000,000 divided into 2,000,000,000 Shares to HK\$300,000,000 divided into 30,000,000,000 Shares by creating an additional 28,000,000,000 unissued Shares.

### PROPOSED OPEN OFFER

#### Issue statistics

Basis of the Open Offer:	five Offer Shares for every one Share held on the Record Date
Subscription Price:	HK\$0.101 per Offer Share payable in full upon acceptance
Number of Shares in issue: as at the Latest Practicable Date	395,151,037 Shares
Number of Offer Shares:	1,975,755,185 Offer Shares, representing 500% of the existing issued share capital of the Company and representing 83.33% of the issued share capital of the Company as enlarged by the Open Offer. As the Underwriter has indicated that it will take up its assured entitlement, the number of Offer Shares available for underwriting shall be 1,634,846,095 Offer Shares

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

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## LETTER FROM THE BOARD

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### Information on the Underwriter

The Underwriter is a company incorporated in the British Virgin Islands with its register address at Abbott Building, 2nd Floor, P.O. Box 933, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the Underwriter holds 68,181,818 Shares representing approximately 17.25% of the entire issued share capital of the Company. Neither the Underwriter nor its ultimate beneficial owners is a Director or has nominated a Director to the Board.

The Underwriter is a wholly owned subsidiary of China Water. As at the Latest Practicable Date, the substantial shareholders of China Water are Asset Full Resources Limited, Atlantis Investment Management Limited, L-R Global Partners, L.P., Deutsche Bank Aktiengesellschaft and HSZ Limited who and their respective parties acting in concert with them are holding approximately 11.77%, 14.06%, 7.66%, 6.92% and 5.44% respectively of the entire issued share capital of China Water. As at the Latest Practicable Date, the board of directors of China Water comprises Duan Chuan Liang and Li Ji Sheng, being the executive directors, Chen Guo Ru, Wu Jiesi, Zhao Hai Hu and Zhou Wen Zhi, being the non-executive directors and Huang Shao Yun, Liu Dong, Chau Kam Wing and Ong King Keung, being the independent non-executive directors.

Upon completion of the Open Offer and if the Underwriter becomes the controlling Shareholders, the Underwriter will maintain the current business of the Company and will not introduce any major changes to the business including redeployment of fixed assets of the Group. The Underwriter has no intention to change the management and other employees of the Group.

China Water is principally engaged in city water supply and related installation and construction business, and sewage treatment business in the PRC, sea buckthorn related business, property development and investment. As city water supply and related installation and construction business and sewage treatment business in the PRC are major income sources of China Water, China Water will continue to focus in these two sectors of business.

In view of recent favorable economic growth and stock market performance, China Water has considered diversifying its investment in addition to its principal business by capturing the investment experience and knowledge of the Company. The directors of China Water consider that the Company which being an investment holding company will enjoy the fruit of favorable economic and global security market growth and will be a good vehicle for China Water to participate in global equity investments. The directors of China Water believe that the underwriting will increase the flexibility to acquire equity interests in the Company and provide an opportunity to enjoy any potential capital gain in the value of the Shares.

As at the Latest Practical Date, there is no any agreement, arrangement or understanding (including any compensation arrangement) exists between the Underwriter and the parties acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Underwriter, China Water or the Company having any connection with or dependence upon the Open Offer.

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## LETTER FROM THE BOARD

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### Subscription Price

The Subscription Price for the Offer Shares is HK\$0.101 per Offer Share, payable in full when a Qualifying Shareholder accepts his/her/its assured entitlement under the Open Offer.

The Subscription Price represents:

- (i) a discount of approximately 86.53% to the closing price of HK\$0.75 per Share on the Last Trading Date;
- (ii) a discount of approximately 85.10% to the average closing price of HK\$0.678 per Share for the 5 consecutive trading days up to and including 29 August 2007, being the Last Trading Date;
- (iii) a discount of approximately 85.30% to the average closing price of HK\$0.687 per Share for the 10 consecutive trading days up to and including 29 August 2007, being the Last Trading Date;
- (iv) a discount of approximately 85.30% to the average closing price of HK\$0.687 per Share or the 30 consecutive trading days up to and including 29 August 2007, being the Last Trading Date;
- (v) a discount of approximately 51.90% to the theoretical price of HK\$0.21 per Share based on the closing price of HK\$0.75 as quoted on the Stock Exchange on 29 August 2007, being the Last Trading Date; and
- (vi) a discount of approximately 87.38% to the average closing price of HK\$0.8 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the financial conditions of the Company, inter alia, as set out in the interim report for the period ended 31 December 2006, the Company recorded unaudited net liabilities of approximately HK\$4.3 million, as at 31 December 2006 and the Company recorded audited loss in the sum of approximately HK\$6.6 million and approximately HK\$2.6 million for the previous two financial years ended 30 June 2006 and 30 June 2005 respectively. The Group needs additional funds to finance its operations and business activities. In view of the recent financial conditions of the Group as mentioned above and taking into consideration of the theoretical price per Share, in order to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Directors (excluding all the non-executive Directors and independent non-executive Directors) consider that the proposed discount of the Subscription Price is appropriate. Each Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (excluding all the non-executive Directors and independent non-executive Directors) consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Market prices

The table below shows the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months commencing 6 months immediately preceding 29 August 2007 (being the date of the Open Offer Announcement) up to the Latest Practicable Date; (ii) the Last Trading Date and (iii) the Latest Practicable Date.

<b>Date</b>	<b>Closing price HK\$</b>
30 April 2007	Suspend
31 May 2007	Suspend
30 June 2007	Suspend
3 July 2007 being the first day after resumption	0.71
31 July 2007	0.94
28 August 2007 (being the last full trading day before the Last Trading Date)	0.66
29 August 2007 (being the Last Trading Date)	0.75
28 September 2007	0.73
the Latest Practicable Date	0.80

### Highest and lowest prices

The highest closing price per Share, based on the Share price as quoted on the Stock Exchange during the six-month period immediately preceding the date of Announcement and up to the Latest Practicable Date, was HK\$1.17 on 26 July 2007.

The lowest closing price per Share, based on the Share price as quoted on the Stock Exchange during the six-month period immediately preceding the date of the Announcement and up to the Latest Practicable Date, was HK\$0.60 on 4 July 2007 and 17 July 2007.

### Conditions of the Open Offer

The Open Offer is conditional upon the following conditions being fulfilled:

- (i) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the date on which the Prospectus is despatched;
- (ii) the passing by no later than the Prospectus Posting Date by the Independent Shareholders (or, where appropriate, Shareholders) at the relevant special general meeting of ordinary resolutions to approve:
  - (a) the increase in the authorised share capital of the Company from HK\$20,000,000 divided into 2,000,000,000 Shares to HK\$300,000,000 divided into 30,000,000,000 Shares by creating an additional 28,000,000,000 unissued Shares;

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## LETTER FROM THE BOARD

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- (b) the Open Offer by way of poll; and
- (c) the Whitewash Waiver by way of poll.
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders on or before the Prospectus Posting Date;
- (iv) the Executive granting the Whitewash Waiver to the Underwriter and parties acting in concert with it and the satisfaction of all conditions (if any) attached to the Whitewash Waiver;
- (v) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the fully paid Offer Shares by no later than the Prospectus Posting Date;
- (vi) the Bermuda Monetary Authority granting consent to (if required) the issue of the Offer Shares by no later than the Prospectus Posting Date;
- (vii) the filing with the Registrar of Companies in Bermuda one copy of each of the prospectus documents duly signed by either all Directors or one of the Directors for and on behalf of all the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Companies Act on or before the Prospectus Posting Date;
- (viii) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement; and
- (ix) compliance with and performance of all the undertakings and obligations of the Underwriter under the terms of the Underwriting Agreement.

Save for conditions (viii) and (ix), the other conditions of the Open Offer are not waivable. If any of the conditions of the Open Offer are not fulfilled or (in respect of conditions (viii) and (ix) only) waived on or before the Latest Time for Termination (or such later time and/or date as the Company and the Underwriter may determine), neither the Company nor the Underwriter shall have any rights or be subject to any obligations arising from the Underwriting Agreement and the Open Offer will not proceed. As at the Latest Practicable Date, the Company had no intention to waive condition (ix) of the Open Offer.



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## LETTER FROM THE BOARD

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

The Offer Shares, when allotted, issued and fully-paid, will rank pari passu with the Shares in issue in all respects. Holders of such Offer Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the fully paid Offer Shares. Dealings in fully-paid Offer Shares will be subject to the payment of stamp duty in Hong Kong.

### **Qualifying Shareholders**

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to Qualifying Shareholders and (ii) the Prospectus, for information only, to the Prohibited Shareholders.

To qualify for the Open Offer, the Shareholder must be registered as a member of the Company on the Record Date and not be a Prohibited Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Registrar, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on the Latest Lodging Date.

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

The Company's register of members will be closed from Friday, 19 October 2007 to Friday, 26 October 2007 (both dates inclusive), for the purpose of, among other things, establishing entitlements to the Open Offer. No transfer of Shares will be registered during this period.

### **Rights of Overseas Shareholders**

If, at the close of business on the Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents are not expected to be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. The Board will make enquiries as to whether the issue of Offer Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory bodies or stock exchanges pursuant to Rule 13.36(2)(a) of the Listing Rules. If, after making such enquiries, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares to such Overseas Shareholders, the Open Offer will not be available to such Overseas Shareholders. Accordingly, the Open Offer will not be extended to the Prohibited Shareholders. The results of the enquiries and the basis of exclusion of the Overseas Shareholders will be included in the Prospectus.

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## LETTER FROM THE BOARD

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The Company will send the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders (if any) and will not send any Application Form in respect of the assured allotment of the Offer Shares to the Prohibited Shareholders. However, so long as the Prohibited Shareholders are Independent Shareholders, they are entitled to cast their votes on the resolutions in relation to the Open Offer and Whitewash Waiver at the SGM.

### **Fractional entitlement to the Offer Shares**

No fractional entitlements or allotments are expected to arise as a result of the Open Offer.

### **No application for excess Offer Shares**

After arm's length negotiation with the Underwriter, the Company decided that the Qualifying Shareholders are not entitled to apply for any Offer Shares which are in excess of their assured entitlements.

In order to lower the administrative costs, the Directors have made no arrangement for application for excess Offer Shares by the Qualifying Shareholders under the Open Offer. Hence, if the Qualifying Shareholders do not participate in the Open Offer by not taking up the Offer Shares to which they are entitled, the Underwriter would take up the shortfall of the Underwritten Shares at the Subscription Price.

Further, given that the terms of the Open Offer are structured with an intention to encourage the Qualifying Shareholders to take up their respective assured allotment of the Offer Shares (as the Subscription Price is set at a discount to the prevailing market price of the Shares which provides reasonable attractiveness to the Qualifying Shareholders), it is reasonable to expect that a majority of the Qualifying Shareholders will apply and pay for their respective assured allotment of the Offer Shares and, therefore, the Offer Shares available for the excess application arrangement are expected to be minimal.

### **Share certificates for the fully-paid Offer Shares**

Subject to the fulfillment of the conditions of the Open Offer, share certificates for all fully-paid Offer Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for on or before the Latest Acceptance Date at their own risk.

### **Application for listing of the Offer Shares on the Stock Exchange**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the fully paid Offer Shares. The Offer Shares are expected to continue to be traded in the existing board lot of 10,000 Shares. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty in Hong Kong, Stock Exchange trading fees, SFC transaction levy and other applicable fees and charges in Hong Kong.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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## LETTER FROM THE BOARD

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### UNDERWRITING ARRANGEMENT

#### Underwriting Agreement

Date:	29 August 2007
Underwriter:	China Water Investments Limited
	the Underwriter is a company incorporated in the British Virgin Islands holding approximately 17.25% of the entire issued share capital of the Company as at the Latest Practicable Date. Neither the Underwriter nor China Water, its ultimate beneficial owners, is a Director or has nominated a Director to the Board
Basis of the Open Offer:	Five Offer Shares for every one Share held on the Record Date
Subscription Price:	HK\$0.101 per Offer Share payable in fully upon acceptance
Number of Offer Shares underwritten:	1,634,846,095 Offer Shares. The Underwriter has indicated that it will take up all of its assured entitlements under the Open Offer

No commission will be payable to the Underwriter under the Open Offer, except that the Company will reimburse the Underwriter, if any, reasonable legal fees and other reasonable out-of-pocket expenses incurred by the Underwriter.

There are sufficient funds for the Underwriter to underwrite the Offer Shares in full.

#### Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

- (1) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

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## LETTER FROM THE BOARD

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- (b) the occurrence of 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 hereof) 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 or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of this circular, the Prospectus Documents or other announcements or circulars in connection with the Open Offer.

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

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## LETTER FROM THE BOARD

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**If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.**

Assuming the Qualifying Shareholders do not take up their assured entitlements and all the Offer Shares taken up by the Underwriter, there will be a possible change in control of the Company after the Open Offer. In the circumstances, the Underwriter and the parties acting in concert with it has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code, and there will not be any changes in the business and management after the Open Offer.

### **WARNING OF THE RISK OF DEALING IN SHARES**

**The Shareholders and potential investors of the Company should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the paragraph headed “Termination of the Underwriting Agreement” above). Accordingly, the Open Offer may or may not proceed.**

**The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealings in the Shares, and if they are in any doubt about their positions, they should consult their professional advisers.**

The Shareholders should note that the Shares will be dealt in on an ex-entitlement basis commencing from Wednesday, 17 October 2007 and that dealings in Shares will take place while the conditions to which the Underwriting Agreement is subject to remain unfulfilled. Any Shareholder or other person dealings in the Shares up to the date on which all conditions to which the Open Offer is subject to are fulfilled (which is expected to be on Wednesday, 17 October 2007), will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed.

## LETTER FROM THE BOARD

### CHANGES IN SHAREHOLDING STRUCTURE

The existing shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company immediately upon completion of the Open Offer are set out below for illustration purpose only:

Name of Shareholder	As at the Latest Practicable Date		Immediately after completion of the Open Offer (Assuming no other Qualifying Shareholders take up their assured entitlements) <i>(Note 1)</i>		Immediately after completion of the Open Offer (Assuming all Qualifying Shareholders take up their assured entitlements)	
	No. of Shares held	Percentage shareholding	No. of Shares held	Percentage shareholding	No. of Shares held	Percentage shareholding
	The Underwriter and parties acting in concert with it	68,181,818	17.25%	2,043,937,003 <i>(Note 2)</i>	86.21%	409,090,908
Poly Good <i>(Note 3)</i>	31,032,857	7.85%	31,032,857	1.31%	186,197,142	7.85%
<b>Sub-total:</b>	<b>99,214,675</b>	<b>25.10%</b>	<b>2,074,969,860</b>	<b>87.52%</b>	<b>595,288,050</b>	<b>25.10%</b>
Public Shareholders	295,936,362	74.90%	295,936,362	12.48%	1,775,618,172	74.90%
<b>Total:</b>	<b>395,151,037</b>	<b>100%</b>	<b>2,370,906,222</b>	<b>100%</b>	<b>2,370,906,222</b>	<b>100%</b>

*Notes:*

- (1) If the shareholding of the Company held by public Shareholders is less than 25% before the close of the Open Offer, the Underwriter will arrange with a placing agent to place down the Underwriter's Shares to ensure that the number of Shares held by the public Shareholders will be more than 25% to comply with Rule 8.08 of the Listing Rules. The Stock Exchange has indicated that if there is insufficient public float of the Shares by the latest time for the Open Offer to become unconditional, unless the Underwriter has entered into an irrevocable agreement with a placing agent to place down the Underwriter's Shares and restore the minimum public float before the publication of the announcement of the results of the Open Offer, it will revoke, if any, its grant of the listing of, and permission to deal in, the fully paid Offer Shares.
- (2) The 2,043,937,003 Shares (representing approximately 86.21% of the entire issued share capital of the Company immediately after completion of the Open Offer) represent the sum of (a) the 68,181,818 Shares currently held by the Underwriter, (b) the 340,909,090 Offer Shares, which are the assured entitlements of the Underwriter as a Shareholder under the Open Offer and (c) the 1,634,846,095 Shares representing the maximum number of Offer Shares which the Underwriter may have to take up pursuant to the Underwriting Agreement. As at the Latest Practicable Date, save as the Underwriter, no other substantial Shareholders have indicated whether they will take up their assured entitlements under the Open Offer or not. This table assumes that all the substantial Shareholders will continue to hold the Shares up to and including the Record Date.
- (3) The entire issued share capital of Poly Good is beneficially owned by Mr. Chan Yan Ting, a non-executive Director. Mr. Chan, being the sole beneficial owner of Poly Good, is deemed to be a substantial Shareholder who is interested in the 31,032,857 Shares, representing approximately 7.85% of the existing entire issued share capital of the Company. Poly Good and its ultimate beneficial owners are independent of, and not acting in concert with, the Underwriter and parties acting in concert with it.

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## LETTER FROM THE BOARD

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### MAINTENANCE OF MINIMUM PUBLIC FLOAT

The Company will closely monitor its shareholding to ensure that the number of Shares held by the public Shareholders will remain more than 25% to comply with Rule 8.08 of the Listing Rules immediately after the close of the Open Offer. The Underwriter has arranged with a placing agent who agrees to place down the Underwriter's Shares if the shareholding of the Company held by public Shareholders is less than 25% upon the close of the Open Offer. An irrevocable placing agreement will be entered into between the Underwriter and the placing agent immediately after the close of the Open Offer if public Shareholders hold less than 25% of the shareholding of the Company upon the close of the Open Offer. Pursuant to the proposed placing agreement, the placing agent will agree with the Underwriter to place out on a fully underwritten basis up to 284,508,747 Shares, representing approximately 12.0% of the entire issued share capital as enlarged by the Offer Shares, at the placing price of HK\$0.101 subject to further negotiation per Share on behalf of the Underwriter to not less than six professional, institutional and/or corporate investors who will be third parties independent of the Company and its connected persons. Details of the placing will be set out in the announcement of the results of the Open Offer if necessary.

### FUNDS RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

During the past 12 months immediately preceding the date of this circular, the Company has entered into the following agreements for fund raising activities:

- (1) subscription agreement dated 2 November 2005 between the Company and Poly Good. Pursuant to the subscription agreement, a total of 89,142,857 Shares were subscribed by Poly Good at HK\$0.09 per Share for the sum of HK\$8,000,000 in cash. The subscription was completed on 20 June 2007;
- (2) subscription agreement dated 11 January 2007 between the Company and Ms. Wu Bao Liu, who is a third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 6,000,000 Shares were subscribed by Ms. Wu Bao Liu at HK\$0.22 per Share for the sum of HK\$1,320,000 in cash;
- (3) subscription agreement dated 20 April 2007 between the Company and Ms. Lei Hio Lai, who is a third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 10,100,000 Shares were subscribed by Ms. Lei Hio Lai at HK\$0.22 per Share for the sum of HK\$2,222,000 in cash;
- (4) subscription agreement dated 11 January 2007 between the Company and Mr. Zhang Jian, who is a third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 1,000,000 Shares were subscribed by Mr. Zhang Jian at HK\$0.22 per Share for the sum of HK\$220,000 in cash;
- (5) subscription agreement dated 11 January 2007 between the Company and Mr. Sam Zhu, who is a third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 4,550,000 Shares were subscribed by Mr. Sam Zhu at HK\$0.22 per Share for the sum of HK\$1,001,000 in cash;

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## LETTER FROM THE BOARD

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- (6) subscription agreement dated 11 January 2007 between the Company and Ms. Shen Lin, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 910,000 Shares were subscribed by Ms. Shen Lin at HK\$0.22 per Share for the sum of HK\$200,200 in cash;
- (7) subscription agreement dated 11 January 2007 between the Company and Ms. Wu Juan, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 2,980,000 Shares were subscribed by Ms. Wu Juan at HK\$0.22 per Share for the sum of HK\$655,600 in cash;
- (8) subscription agreement dated 20 April 2007 between the Company and GEV (Hong Kong) Limited, who and whose ultimate beneficial owners were substantial Shareholders after the subscription. Pursuant to the subscription agreement, a total of 27,100,000 Shares were subscribed by GEV (Hong Kong) Limited at HK\$0.22 per Share for the sum of HK\$5,962,000 in cash. GEV (Hong Kong) Limited subsequently disposed part of its shareholding in the Company and it was not a substantial Shareholder as at the Latest Practicable Date;
- (9) subscription agreement dated 20 April 2007 between the Company and Mr. Chen Kang, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 13,636,363 Shares were subscribed by Mr. Chen Kan at HK\$0.22 per Share for the sum of HK\$3,000,000 in cash;
- (10) subscription agreement dated 20 April 2007 between the Company and Mr. Li Xiao Ping, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 4,000,000 Shares were subscribed by Mr. Li Xiao Ping at HK\$0.22 per Share for the sum of HK\$880,000 in cash;
- (11) subscription agreement dated 20 April 2007 between the Company and Ms. Yang Li Fang, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 5,000,000 Shares were subscribed by Ms. Yang Li Fang at HK\$0.22 per Share for the sum of HK\$1,100,000 in cash;
- (12) subscription agreement dated 20 April 2007 between the Company and Mr. Liao Bo, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 4,550,000 Shares were subscribed by Mr. Liao Bo at HK\$0.22 per Share for the sum of HK\$1,001,000 in cash;
- (13) subscription agreement dated 20 April 2007 between the Company and Mr. Liu Qiu Sheng, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 1,363,636 Shares were subscribed by Mr. Liu Qiu Sheng at HK\$0.22 per Share for the sum of HK\$300,000 in cash;
- (14) subscription agreement dated 20 April 2007 between the Company and the Underwriter. Pursuant to the subscription agreement, a total of 68,181,818 Shares were subscribed by the Underwriter at HK\$0.22 per Share for the sum of HK\$15,000,000 in cash;



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## LETTER FROM THE BOARD

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- (15) subscription agreement dated 20 April 2007 between the Company and Mr. Fung Cheuk Nang, Clement, who became a substantial Shareholder after the subscription. Pursuant to the subscription agreement, a total of 31,818,182 Shares were subscribed by Mr. Fung Cheuk Nang, Clement at HK\$0.22 per Share for the sum of HK\$7,000,000 in cash;
- (16) subscription agreement dated 20 April 2007 between the Company and Upkeep Properties Limited, who and whose ultimate beneficial owner, Mr. Tam Wo Quan, became a substantial Shareholder after the subscription. Pursuant to the subscription agreement, a total of 25,000,000 Shares were subscribed by Upkeep Properties Limited, Clement at HK\$0.22 per Share for the sum of HK\$5,500,000 in cash;
- (17) subscription agreement dated 20 April 2007 between the Company and Mr. You Tao, who became a substantial Shareholder after the subscription. Pursuant to the subscription agreement, a total of 25,909,090 Shares were subscribed by Mr. You Tao at HK\$0.22 per Share for the sum of HK\$5,700,000 in cash. Mr. You Tao subsequently disposed part of his shareholdings in the Company and he was not a substantial Shareholder as at the Latest Practicable Date;
- (18) subscription agreement dated 20 April 2007 between the Company and Mr. Liu Wei Tao, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 10,000,000 Shares were subscribed by Mr. Liu Wei Tao at HK\$0.22 per Share for the sum of HK\$2,200,000 in cash; and
- (19) subscription agreement dated 20 April 2007 between the Company and Mr. Chen Jian, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 15,909,091 Shares were subscribed by Mr. Chen Jian at HK\$0.22 per Share for the sum of HK\$3,500,000 in cash.

Save as aforesaid, the Company did not conduct any other fund raising activities in the past 12 months immediately preceding the date of the Announcement.

The net proceeds of all the above subscription agreements amounted to approximately HK\$64.7 million. As at the Latest Practicable Date, out of such net proceeds approximately HK\$15 million was used to invest in mid-cap and small-cap listed securities in Hong Kong, approximately HK\$9 million was used to repay the then liabilities of the Company and the balance of approximately HK\$40.7 million was used as general working capital and the funding to invest in listed and unlisted companies established and/or conducting business in the PRC with potential growth. Given that the Company is an investment holding company under Chapter 21 of the Listing Rules and is principally engaged in the holding of equity or equity-related investments and the provision of management services to the investee companies, the Company has actively sought for investment opportunities in the PRC. As at the Latest Practicable Date, only approximately HK\$38 million is available for investment. The Company cannot invest in a large scale investment project and will limit the investment scope of the Company. The Directors consider additional fund raising is necessary in order to allow the Company to participate in large scale investments with better return.

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## LETTER FROM THE BOARD

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### WHITEWASH WAIVER

In the event that upon completion of the Open Offer, no Qualifying Shareholders take up any Offer Shares, the Underwriter, as the underwriter of the Open Offer, will be required to subscribe for and take up all the Offer Shares that are not subscribed for under the Open Offer, which will result in the Underwriter holding 1,975,755,185 Shares representing approximately 83.33% of the entire issued share capital of the Company as enlarged by the Open Offer. The total shareholding of the Underwriter and parties acting in concert with it will increase from 68,181,818 Shares, representing approximately 17.25% of the entire issued share capital of the Company as at the Latest Practicable Date, to 2,043,937,003 Shares, representing approximately 86.21% of the entire issued share capital of the Company as enlarged by the Open Offer. Accordingly, the underwriting by the Underwriter will trigger an obligation for the Underwriter and parties acting in concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already held by it and parties acting in concert with it. An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

Upon Completion, the Underwriter and parties acting in concert with it will have the possibility of holding more than 50% of the enlarged issued share capital of the Company if the Shareholders do not take up their assured entitlements. Accordingly, the Underwriter and parties acting in concert with it may increase their holding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

The Underwriter has made an application to the Executive for the Whitewash Waiver and the Executive has agreed, subject to the approval by the Independent Shareholders on a vote taken by way of poll at the SGM, to waive any obligations on the part of the Underwriter and parties acting in concert with it to make a general offer which might result from the Open Offer. The Underwriter and parties acting in concert with it and Poly Good and those who are interested in or involved in the Open Offer and Whitewash Waiver will abstain from voting on the Whitewash resolutions. In the event that the Whitewash Waiver is not granted by the Executive and/or not approved by the Independent Shareholders, the Open Offer will not proceed.

### REASONS FOR THE OPEN OFFER AND THE USE OF PROCEEDS

The Company is an investment holding company and its principal subsidiaries are engaged in the holding of equity or equity-related investments and the provision of management services to the investee companies.

As set out in the interim report for the 6 months ended at 31 December 2006, the Company recorded an unaudited consolidated loss of HK\$1,671,899. Of the aggregate amount of approximately HK\$64.7 million net proceeds raised during the past 12 months, HK\$9 million has been used for settlement of liabilities of the Company.

In view of recent favourable economic growth and stock market performance, the Company intends to strengthen its financial position by the Open Offer, which will enable the Company to expand its capital base. In addition, the Open Offer allows the Qualifying Shareholders to maintain their respective

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## LETTER FROM THE BOARD

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pro rata shareholdings in the Company and participate in the future growth and development of the Company. The Directors therefore consider that the Open Offer is in the interests of the Company and the Shareholders as a whole.

The estimated net proceeds from the Open Offer will be approximately HK\$197.9 million (net of expenses of approximately HK\$1.6 million). The Board intends to apply the net proceeds for future investment opportunities in the PRC to achieve long-term capital appreciation of its assets primarily through equity and equity-related investments. As at the Latest Practicable Date, the Company has not identified any specific investment targets.

### FINANCIAL AND TRADING PROSPECT OF THE GROUP

As set out in the interim report for the period ended 31 December 2006, the Company recorded unaudited net liabilities of approximately HK\$4.3 million, as at 31 December 2006 and the Company recorded unaudited consolidated loss of HK\$1,671,899 for the 6 months ended at 31 December 2006. The Company recorded audited loss in the sum of approximately HK\$6.6 million and approximately HK\$2.6 million for the previous two financial years ended 30 June 2006 and 30 June 2005 respectively.

Align with the initiative to broaden the Company's business horizon, the Open Offer will strength the financial position of the Company. The Company will proactively seek for new and viable investment opportunities in Hong Kong and the PRC.

### LISTING RULES IMPLICATIONS

As the Open Offer will increase the issued share capital and the market capitalisation of the Company by more than 50%, within the 12 month period immediately preceding the date of this circular, Pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional on approval by Independent Shareholders at the SGM and any controlling Shareholders and their associates shall abstain from voting in favour of the relevant resolutions relating to the Open Offer. Pursuant to Rule 7.26A(2) of the Listing Rules, since no excess application for the Offer Shares is available, the absence of excess application is also conditional on approval by the Independent Shareholders and any controlling Shareholders and their associates shall abstain from voting in favour of the relevant resolutions relating to the Open Offer. As there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting on the relevant resolution to approve the Open Offer at the SGM. Mr. Chan Yan Ting, being a non-executive Director and the ultimate beneficial owner of Poly Good which is interested in 31,032,857 Shares, Poly Good shall abstain from voting in favour of the relevant resolutions relating to the Open Offer.

The Underwriter, who is interested in 68,181,818 Shares, and its associates should also abstain from voting in favour of the relevant resolutions to approve the Open Offer and the Whitewash Waiver at the SGM.

Pursuant to Rule 14A.31(3)(c) of the Listing Rules, the Underwriter, being a connected person, acting as the underwriter in accordance with the Underwriting Agreement, is exempt from all the reporting, announcement and Independent Shareholders' approval requirements.

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## LETTER FROM THE BOARD

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### PROCEDURE FOR DEMANDING A POLL

According to bye-law 66 of the bye-laws of the Company, a resolution put to the vote at any general meeting shall be determined by a show of hands of the Shareholders present in person (or, in the case of a Shareholder being a corporation, by its authorised representative entitled to vote) or by proxy unless voting by way of a poll is required by the rules of the designated stock exchange or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of such meeting; or
- (ii) by at least three Shareholders present in person or in the case of a Shareholder being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation, by its duly authorised representative or by proxy and holding shares of the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation or by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

Unless a poll is duly demanded in accordance with the foregoing provisions, a declaration by the chairman that a resolution has on a show of hands been carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

### GENERAL

Pursuant to the Takeovers Code, the Whitewash Waiver is conditional on, among other things, the approval by the Independent Shareholders by way of poll. The SGM will be held for the Independent Shareholders to consider and, if thought appropriate, approve the Whitewash Waiver. The Underwriter and parties acting in concert with it, any parties who are involved or interested in the Open Offer and Whitewash Waiver will abstain from voting on the resolutions approving the Open Offer and the Whitewash Waiver at the SGM pursuant to the Takeovers Code and the Listing Rules. As there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions approving the Open Offer and the Whitewash Waiver at the SGM. The Underwriter and parties acting in concert

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## LETTER FROM THE BOARD

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with it are beneficially interested in a total of 68,181,818 Shares, representing approximately 17.25% of the entire issued share capital of the Company as at the Latest Practicable Date. The voting at the SGM will be taken by way of poll.

The Company has established an independent board committee comprising all non-executive Directors who are Mr. Lan Ning, Mr. Chan Yan Ting, Dr. Chan Po Fun, Peter, Mr. Ding Xiaobin and Mr. Chan Wing Chung, all and independent non-executive Directors namely Dr. Cheung Wai Bun, Charles, Mr. Zhang Yong and Mr. Gu Qiu Rong, to advise the Independent Shareholders as to whether the Open Offer and the terms of the Whitewash Waiver are fair and reasonable and whether the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of Grand Cathay. In this connection, Grand Cathay has been appointed as independent financial adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Whitewash Waiver are fair and reasonable and whether the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote.

### **SGM**

A notice convening the SGM at Suite 6305, 63/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 26 October 2007 at 11:00 a.m. is set out on pages 102 to 104 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire.

### **RECOMMENDATION**

The Directors believe that the increase in authorised share capital of the Company is fair and reasonable and in the interests of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the aforesaid proposal.

The executive Directors also believe that the terms of the Open Offer and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Open Offer and the Whitewash Waiver. You are advised to read carefully the letter from the Independent Board Committee regarding the Open Offer and the Whitewash Waiver on page 29 of this circular. The Independent Board Committee, having taken into account the advice of Grand Cathay, the text of which is set out on pages 30 to 43 of this circular, considers that the terms of the Open Offer and the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned.

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## LETTER FROM THE BOARD

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Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Open Offer and the Whitewash Waiver at the SGM.

### FURTHER INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

By the order of the board  
**Prime Investments Holdings Limited**  
**Wang Wen Xia**  
*Executive Director/CEO*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Whitewash Waiver.*



### **PRIME INVESTMENTS HOLDINGS LIMITED**

*(incorporated in the Cayman Islands and continued in Bermuda with limited liability)*  
(Stock Code: 721)

8 October 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED OPEN OFFER IN THE PROPORTION OF FIVE OFFER SHARES  
FOR EVERY ONE SHARE HELD ON THE RECORD DATE;  
AND  
APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of the Company dated 8 October 2007 (the “Circular”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Open Offer and the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned. Grand Cathay has been appointed as Grand Cathay to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, Grand Cathay as set out in its letter of advice to you and us on pages 30 to 43 of the Circular, we are of the opinion that the Open Offer is in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. We are also of the view that the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Open Offer and the Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Lan Ning      Mr. Chan Yan Ting      Dr. Chan Po Fun, Peter      Mr. Ding Xiaobin,      Mr. Chan Wing Chung**  
*Non-executive Director*

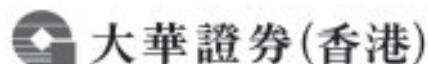
**Dr. Cheung Wai Bun, Charles      Mr. Zhang Yong      Mr. Gu Qiu Rong**  
*Independent Non-executive Director*

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## LETTER FROM GRAND CATHAY

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*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders received from Grand Cathay prepared for the purpose of inclusion in this circular:*



**大華證券(香港)**

**GRAND CATHAY SECURITIES (HONG KONG) LIMITED**

香港中環花園道3號中國工商銀行大廈7樓705至706室

Room 705-706, 7/F., ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong

Tel: 852-2521-2982 Fax: 822-2521-0085 www.gcsc.com.tw

8 October 2007

*To the Independent Board Committee  
and the Independent Shareholders*

Prime Investments Holdings Limited  
Suite 6305, 63/F  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

Dear Sirs,

### **PROPOSED OPEN OFFER IN THE PROPORTION OF FIVE OFFER SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE AND APPLICATION FOR WHITEWASH WAIVER**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer and the Whitewash Waiver, details of which are set out in the section headed "Letter from the Board" (the "Letter") in the Company's circular dated 8 October 2007 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 5 September 2007, the Company announced, among other things, that the Company proposed to raise approximately HK\$200 million before expenses by issuing 1,975,755,185 Offer Shares by way of the Open Offer at HK\$0.101 per Offer Share. The Open Offer is fully underwritten pursuant to the terms and conditions of the Underwriting Agreement. As the Open Offer will increase the issued share capital and the market capitalisation of the Company by more than 50%, within the 12 month period immediately preceding the date of the Circular. Pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional on approval by Independent Shareholders at the SGM and any controlling Shareholders and their associates shall abstain from voting in favour of the relevant resolutions relating to the Open Offer. Pursuant to Rule 7.26A(2) of the Listing Rules, since no excess application for the Offer Shares is available, the absence of excess application is also conditional on approval by the Independent Shareholders and any controlling Shareholders and their associates shall abstain from voting in favour of the relevant resolutions relating to the Open Offer. As there are no controlling Shareholders, the Directors (excluding



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## LETTER FROM GRAND CATHAY

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independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting on the relevant resolution to approve the Open Offer at the SGM. Mr. Chan Yan Ting, being a non-executive Director and the ultimate beneficial owner of Poly Good which is interested in 89,142,857 Shares, Poly Good shall abstain from voting in favour of the relevant resolutions relating to the Open Offer.

The Underwriter and parties acting in concert with it were interested in 68,181,818 Shares, representing approximately 17.25% of the issued share capital of the Company. In the event that the Underwriter is required to take up all the 1,634,846,095 Offer Shares (being its underwritten commitment pursuant to the Underwriting Agreement), the Underwriter and parties acting in concert with it will become interested in a total of 2,043,937,003 Shares, representing approximately 86.21% of the issued share capital of the Company as enlarged by the Open Offer. In that case, the Underwriter and parties acting in concert with it will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. An application has been made to the Executive by the Underwriter for the Whitewash Waiver under Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that subject to the approval of the Independent Shareholders taken by way of a poll at the SGM, it will grant the Whitewash Waiver. As stated in the Letter, the Open Offer and the Underwriting Agreement are inter-conditional and that it is one of the conditions of the Open Offer that the Whitewash Waiver be obtained.

By virtue of the Underwriter's interest in the Underwriting Agreement, the Underwriter and parties acting in concert with it, any parties who involved or interested in the Open Offer and Whitewash Waiver will abstain from voting on the resolutions approving the Open Offer and the Whitewash Waiver at the SGM pursuant to the Takeovers Code and the Listing Rules.

Mr. Lan Ning, Mr. Chan Yan Ting, Gordon, Dr. Chan Po Fun, Peter, Mr. Ding Xiaobin and Mr. Chan Wing Chung, Eric being the non-executive Directors and Dr. Cheung Wai Bun, Charles, Mr. Zhang Yong and Mr. Gu Qiu Rong, being the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to advise and make recommendation to the Independent Shareholders as to how to vote at the SGM on the ordinary resolutions regarding the Open Offer and the Whitewash Waiver.

Our role as the independent financial adviser is to give our independent opinion to the Independent Board Committee and Independent Shareholders as to (i) whether the terms of the Open Offer and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) advise the Independent Shareholders on how to vote in relation to (i) above.

### **BASIC OF OUR OPINION**

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

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## LETTER FROM GRAND CATHAY

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Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Director provided to us. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information and opinions but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the terms of the Open Offer and the Whitewash Waiver, we have considered the following principal factors and reasons.

#### 1. Background information and outlook of the Group

The Company is an investment holding company and its principal subsidiaries are engaged in the holding of equity or equity-related investments and the provision of management services to the investee companies.

The table below tabulates the financial results of the Group for the two years ended 30 June 2006 and for the six months ended 31 December 2005 and 31 December 2006, as extracted from the annual report for the year ended 30 June 2006 (the “Annual Report”) and the interim report for the six months ended 31 December 2006 (the “Interim Report”) of the Company.

	For the year ended		For the six months end	
	30 June	30 June	31 December	31 December
	2005	2006	2005	2006
	(audited)	(audited)	(unaudited)	(unaudited)
	HK\$	HK\$	HK\$	HK\$
Turnover	–	–	–	–
Net loss for the period attributable to Shareholder	2,552,955	6,557,134	1,656,654	1,671,899
Loss per share – basic	5.3 cents	13.7 cents	3.45 cents	3.48 cents

For each of the two financial years ended 30 June 2006 and for the six months period ended 31 December 2005 and 31 December 2006, the Group recorded no turnover. Loss attributable to Shareholders for each of the two financial years ended 30 June 2006 was approximately HK\$2.6 million and HK\$6.6 million respectively. Loss attributable to Shareholders for the six-month period ended 31 December 2005 and 31 December 2006 was approximately HK\$1.7 million and HK\$1.7 million respectively.

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## LETTER FROM GRAND CATHAY

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According to the Annual Report, the Group recorded an audited net current liabilities and audited net liabilities of approximately HK\$9.2 million and HK\$2.6 million as at 30 June 2006. As stated in the Interim Report, the Group recorded an unaudited net current liabilities and unaudited net liabilities of approximately HK\$10.9 million and HK\$4.3 million as at 31 December 2006. As at 31 December 2006, the Group had cash and bank balances of approximately HK\$0.5 million.

As stated in the Letter and the Company's announcement dated 29 June 2007, the Company has entered into 19 subscription agreements and the transactions contemplated therein were completed on 20 and 21 June 2007. The net proceeds of all the aforesaid transactions amounted to approximately HK\$64.7 million. As at the Latest Practicable Date, out of such net proceeds, approximately HK\$15 million was used to invest in mid-cap and small-cap listed securities in Hong Kong, approximately HK\$9 million was used to repay the then liabilities of the Company and the balance of approximately HK\$40.7 million will be used as general working capital and the funding to invest in listed and unlisted companies established and/or conducting business in the PRC with potential growth.

Since the Company is an investment holding company and its principal subsidiaries are engaged in the holding of equity or equity-related investments and the provision of management services to the investee companies, we consider that it is difficult to predict the outlook of the Group since the Group can invest in all aspect of industry.

According to the Directors, as the investment plan of the Group is to identify and invest in high earnings and medium term capital appreciation mainly through investment in listed and unlisted companies established and/or doing business in Hong Kong and the PRC, we consider and concur with the view of the Directors that, in general, if the performance of equity market is good, the performance of the Group would also be good. According to the information from the website of the Stock Exchange, the market capitalisation of main board of the Stock Exchange increased from approximately HK\$6,640 billion as at 3 January 2005 to approximately HK\$17,595 billion as at 31 August 2007 and the average price earning ratios of all stock listed in main board increased from approximately 13.88 times as at 31 August 2006 to approximately 19.70 times as at 31 August 2007. Based on the above and the past performance of the Hong Kong equity market, we are of the view and concur with the view of the Directors that the outlook of the Group is positive. However, the Shareholders should note that the fluctuation of stock market performance may affect the performance of the Group.

### **2. Reasons for the Open Offer and the use of proceeds**

As stated in the Letter, the Group intends to strengthen its financial position by the Open Offer which will enable the Company to expand its capital base in view of the recent favourable economic growth and stock market performance. The estimated net proceeds from the Open Offer will be approximately HK\$197.9 million. The Board intends to apply the net proceeds for future investment opportunities in the PRC to achieve long-term capital appreciation of its assets primarily through equity and equity-related investments.

We are of the view that since one of the principal activities of the Group is to hold equity and equity-related investment, maintenance of adequate capital base is necessary for the operation of the Company. Given the current financial position of the Group, we are of the view and concur with the

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## LETTER FROM GRAND CATHAY

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Directors' view that the investment activities of the Group and the profitability of the Group are restricted, which was stated in the Annual Report. According to the Annual Report, the Group has not made any major investments during the financial year ended 2006 due to lack of new capital for investment. For this reason, although the Hong Kong stock market marked a considerable recovery in the financial year 2006, the Group did not benefit from the stock market rally. Given that the Company is an investment holding company under Chapter 21 of the Listing Rules and is principally engaged in the holding of equity or equity-related investments and the provision of management services to the investee companies, according to the Directors, the Company has actively sought for investment opportunities in the PRC. As stated in the Letter, as at the Latest Practicable Date, only approximately HK\$38 million is available for the Group to invest and the Directors consider that the Company cannot invest in large scale investment projects which limit the investment scope of the Company. Therefore, in order to allow the Company to participate in large scale investments with better return, additional fund is necessary.

Given the nature of the business of the Group and the current financial position of the Group as stated above, we are of the view and concur with the view of the Directors that the Open Offer is fair and reasonable and is in the interests of the Group and the Independent Shareholders as a whole. Discussion of the alternatives of the Open Offer is set out in the paragraph headed "Alternatives to the Open Offer" below.

### **3. Principal terms of the Open Offer**

The Company proposed to raise approximately HK\$200 million before expenses by issue 1,975,755,185 Offer Shares at a Subscription Price of HK\$0.101 per Offer Share, payable in full on application. Qualifying Shareholders will be offered 5 Offer Shares for every Share held on the Record Date. The Open Offer will not be available to the Prohibited Shareholder (if any). Qualifying Shareholders are not entitled to apply for any Offer Shares which are in excess of their assured entitlements.

The Offer Shares, when allotted, issued and fully-paid, will rank pari passu with the Shares in issue in all respects. Holders of such Offer Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the fully paid Offer Shares. Dealings in fully-paid Offer Shares will be subject to the payment of stamp duty in Hong Kong.

The Open Offer is fully underwritten and is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the financial conditions of the Company, inter alia, as set out in the Annual Report and the Interim Report.

The Subscription Price represents:

- (a) a discount of approximately 86.53% to the closing price of HK\$0.75 per Share on the Last Trading Date;

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## LETTER FROM GRAND CATHAY

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- (b) a discount of approximately 85.10% to the average closing price of HK\$0.678 per Share for the 5 consecutive trading days up to and including 29 August 2007, being the Last Trading Date;
- (c) a discount of approximately 85.30% to the average closing price of HK\$0.687 per Share for the 10 consecutive trading days up to and including 29 August 2007, being the Last Trading Date;
- (d) a discount of approximately 85.30% to the average closing price of HK\$0.687 per Share for the 30 consecutive trading days up to and including 29 August 2007, being the Last Trading Date;
- (e) a discount of approximately 51.90% to the theoretical price of HK\$0.21 per Share based on the closing price of HK\$0.75 as quoted on the Stock Exchange on 29 August 2007, being the Last Trading Date.

### *Review on prices of the Shares*

Since the trading of the Shares was suspended from 14 February 2005 (according to the Directors, the suspension was at the request of the Company for the reason of certain price sensitive information in relation to the allegations made against Mr. Lau, the former chairman of the Board, in connection with a private company of which Mr. Lau is a shareholder and director for the period between August 2002 and January 2004) and resumed since 3 July 2007, set out below are the daily closing price of the Share since the resumption of trading of Shares on 3 July 2007 to the date of the Announcement (the “Review Period”):

	<b>Highest closing price (HK\$)</b>	<b>Lowest closing price (HK\$)</b>	<b>Monthly average daily closing price (HK\$)</b>
July	1.09	0.6	0.76
August	0.99	0.65	0.77
September ( <i>Note</i> )	–	–	–

*Note:* The trading of Share was suspended pending the release of the Announcement.

*Source:* the website of the Stock Exchange

## LETTER FROM GRAND CATHAY

The chart below illustrates the daily closing price of the Shares versus the Subscription Price during the Review Period:



During the Review Period, the highest closing price and the lowest closing price of the Shares were HK\$1.09 on 26 July 2007 and HK\$0.6 on 4 July 2007 and 14 July 2007 respectively. The Subscription Price is lower than all the monthly lowest closing price of the Shares and the monthly average daily closing price of the Share during the Review Period, representing a discount of approximately 90.7% and 83.2% to such the highest and lowest closing price of the Shares during the Review Period.

The Directors advised that, given the net liabilities position of the Group as stated in the Annual Report and the Interim Report and in order to induce the Independent Shareholders to participate in the Open Offer, the Subscription Price of HK\$0.101 per Share was set at a price lower than the recent market prices of the Shares.

### *Review on the trading volume of the Shares*

Set out below are the monthly total trading volume of the Share and the monthly average trading volume to the Company's total issued Shares as at the date of the Announcement:

	<b>Total trading volume</b> (Share)	<b>Monthly average trading volume to the Company's total issued Shares as at the date of the Announcement</b> (%)
July	7,230,000	1.8
August	2,273,571	0.6
September (Note)	—	—

*Note:* The trading of Share was suspended pending the release of the Announcement.

*Source:* the website of the Stock Exchange

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## LETTER FROM GRAND CATHAY

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We note that the daily trading volume of the Shares within the Review Period is significantly low relative to the Company's total issued Shares. The highest monthly average trading volume of the Shares only represents approximately 1.8% of the Company's issued share capital.

In view of the extremely low liquidity of the Shares on the Stock Exchange, and based on the fact that the Open Offer would not dilute the shareholding of the existing Shareholders (assuming the Qualifying Shareholders take up their respective assured allotment of the Offer Shares) (discussion of the potential dilution effect on the shareholding interests of the Open Offer is set out in the paragraph headed "Potential dilution effect on the shareholding interests of the Independent Shareholders" below), we consider that the Open Offer is a proper fund raising method.

### *Comparison with recent open offer cases*

In assessing the Subscription Price, we have attempted to compare the Open Offer with the recent open offers. Based on the information from the Stock Exchange and with our best effort, we have identified a list, which we considered to be exhaustive, of 10 open offers announced by other companies listed on the Stock Exchange (the "Comparables") for a period of 3 months prior to the date of the Announcement. Details of our findings on these open offers are summarised in the table below:

Company name (stock code)	Date of announcement	Basis of allotment	Discount/ (Premium) of the subscription price to/ (over) closing price per share on the last trading day prior to announcement in relation to the respective open offer	Discount/ (premium) of the subscription price to/(over) theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective open offer	Underwriter commission
Paladin Limited (495)	4 September 2007	1 for 2	(32%)	(24%)	2.0%
eCyberChina Holdings Limited (254)	23 August 2007	30 for 1	91.43%	25.6%	2.0%
Northern International Holdings Limited (736)	24 July 2007	3 for 1	76.1%	44.3%	2.5%
Mandarin Entertainment (Holdings) Limited (9)	20 July 2007	1 for 2	50.50%	40.48%	2.5%

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**LETTER FROM GRAND CATHAY**

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Company name (stock code)	Date of announcement	Basis of allotment	Discount/ (Premium) of the subscription price to/ (over) closing price per share on the last trading day prior to announcement in relation to the respective open offer	Discount/ (premium) of the subscription price to/(over) theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective open offer	Underwriter commission
Theme International Holdings Limited (990)	20 July 2007	1 for 2	55.20%	45.10%	2%
Asia Commercial Holdings Limited (104)	17 July 2007	4 for 5	54%	24%	2%
GZI Transport Limited (1052)	29 June 2007	1 for 2	31.05%	23.09%	1.75%
Kenfair International (Holdings) Limited (223)	27 June 2007	1 for 2	89.13%	84.54%	2.50%
China Investment Fund Company Limited (612)	13 June 2007	1 for 2	88.51%	83.71%	1.00%
China Aerospace International Holdings Limited (31)	6 June 2007	1 for 5	51.08%	46.42%	2.25%
		Mean	65.2% (Note)	46.36% (Note)	2.05%
		Minimum	31.05% (Note)	23.09% (Note)	1.0%
		Maximum	91.43% (Note)	84.54% (Note)	2.50%
The Company			86.53%	51.90%	0%

*Note:* Excluding the premium in the case of Paladin Limited as we considered that it is an outlier and may distort the average



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## LETTER FROM GRAND CATHAY

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It is noted that 9 out of a total 10 Comparables had priced an open offer at a discount to both the closing share prices on the last trading day prior to the respective open offer announcement and to the theoretical ex-entitlement prices of the shares based on the closing price of shares on the last trading day prior to the respective open offer announcement. If excluding the only case in which the open offer was priced at a premium, the subscription prices per share of the Comparables ranged from a discount of approximately 31.05% to 91.43% to the closing share prices on the last trading day prior to the respective open offer announcement, with an average discount of approximately 65.2%.

On the other hand, the subscription prices per share of the Comparables ranged from a discount of approximately 23.09% to 84.54% to the theoretical ex-entitlement prices based on the closing price on the last trading day prior to the respective open offer announcement, with an average discount of approximately 46.36%.

In the case of the Company, the discount of approximately 86.53% of the Subscription Price to the closing price per Share on the Last Trading Day falls within the relevant range of the Comparables and is greater than their average discount of approximately 65.2%. Similarly, the discount of approximately 51.9% represented by the Subscription Price to the theoretical ex-entitlement price on the Last Trading Day falls within the relevant range of the Comparables and is slightly greater than their average discount of approximately 46.36%.

Based on the above comparison, we are of the view that the Subscription Price is fair and reasonable so far as the Company and the Shareholders are concerned. In view of the foregoing and having considered (i) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the financial conditions of the Company; (ii) all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlements in full at the same price to maintain their respective shareholdings in the Company, we are of the opinion and concur with the Directors that the discounts of the Subscription Price as compared to the recent market prices would encourage Shareholders to participate in the Open Offer and the future growth of the Company and that the Subscription Price is fair and reasonable insofar as the Independent Shareholders are concerned.

#### **4. Alternatives to the Open Offer**

The Directors advised that they have considered alternative means for the Group to raise funds other than the Open Offer, including but not limited to, debt financing and placing of new shares. Given the current financial condition of the Group, the Directors believe that taking up borrowings or other bank financing would increase the Group's interest expenses, and, in turn, will deteriorate the Group's financial position.

The Company has also considered the possibility of fund raising by way of share placements as an alternative to the Open Offer. However, unlike the Open Offer which provides all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and at the same time allow them to maintain their proportionate interests in the Company, a share placement would involve an issue of new shares and result in a dilution of existing Shareholders' interest. Accordingly, the Directors do not consider a share placement to be a desirable alternative to the Open Offer.

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## LETTER FROM GRAND CATHAY

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Having considered the existing financial position of the Group and that all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlement in full at the same price to maintain their respective shareholdings in the Company, we consider that the Open Offer is an equitable means to raise capital for the Group under the existing circumstances.

### **5. Potential dilution effect on the shareholding interests of the Independent Shareholders**

Upon completion of the Open Offer, 1,975,755,185 new Shares will be issued. Qualifying Shareholders who elect to subscribe for in full their assured entitlements under the Open Offer will retain their current shareholding in the Company. Qualifying Shareholders who do not elect to subscribe for in full their assured entitlements under the Open Offer will be diluted after completion of the Open Offer by a maximum of approximately 83%. Despite the dilution effect by the Open Offer of a maximum of approximately 83%, we consider it should be balanced against the facts that (i) the Qualifying Shareholders have an equal opportunity to participate in the Open Offer; and (ii) the Open Offer would provide the fund to the Group for investment. As such, we consider the possible dilution effect on the Shareholders to be acceptable.

### **6. Underwriting arrangement**

Pursuant to the Underwriting Agreement, the Company do not need to pay any underwriting commission, except that the Company will reimburse the Underwriter, if any, reasonable legal fees and other reasonable out-of-pocket expenses incurred by the Underwriter. Since the Company do not need to pay any underwriting commission, it is favourable to the Company and the Shareholders as a whole.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement, it should also be noted that the Open Offer would not proceed if the Underwriter exercises its termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are included in the Letter.

### **7. Absence of arrangement for application for excess Offer Shares**

In order to lower the administrative costs, the Directors have made no arrangement for application for excess Offer Shares by the Qualifying Shareholders under the Open Offer. Hence, if the Qualifying Shareholders do not participate in the Open Offer by not taking up the Open Offer Shares to which they are entitled, the Underwriter would take up the shortfall of the Underwritten Shares at the Subscription Price, which is at a substantial discount to the recent market price of the Shares. As a result, the interest of those Qualifying Shareholders who do not take up the Offer Shares in full in the Company will be diluted accordingly.

We consider that the absence of an arrangement for application for excess Offer Shares would be less attractive to those Qualifying Shareholders who wish to take advantage of such arrangement to increase their shareholding in the Company. However, we consider that the aforesaid should be balanced against the facts that given the terms of the Open Offer are structured with an intention to encourage the Qualifying Shareholders to take up their respective assured allotment of the Offer Shares (as the Subscription Price is set at a discount to the prevailing market price of the Shares which provides reasonable attractiveness to the Qualifying Shareholders) and the outlook of the Group, it is reasonable

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## LETTER FROM GRAND CATHAY

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to expect that a majority of the Qualifying Shareholders will apply and pay for their respective assured allotment of the Offer Shares and, therefore, the Offer Shares available for the excess application arrangement are expected to be minimal.

Therefore, the absence of an excess application arrangement may not be considered materially detrimental to the Qualifying Shareholders.

In case, Shareholders (including those non-Qualifying Shareholders) not accepting the Open Offer, they shall have their interests in the Company diluted but they shall be able to benefit from the overall improvement of the financial position of the Company after the completion of the Open Offer.

### **8. Financial effects of the Open Offer**

#### *(a) Net tangible asset*

According to the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group (the "Pro Forma Statement") set out in Appendix II to the Circular, the audited consolidated net liabilities of the Group was approximately HK\$2.64 million as at 30 June 2006. The unaudited pro forma adjusted net tangible assets of the Group would increase to approximately HK\$260.07 million as a result of (i) estimated net proceeds of approximately of HK\$64.76 million from the completion of subscriptions of 347,151,037 Shares as announced by the Company on 29 June 2007 and (ii) the estimated net proceeds of approximately HK\$197.95 million from the Open Offer.

Despite the estimated net proceeds from the aforesaid subscriptions, the financial position of the Group would turnaround from audited net liabilities of approximately HK\$2.64 million to unaudited pro forma adjusted consolidated net tangible assets of approximately HK\$195.31 million.

Upon completion of the Open Offer, the unaudited pro forma adjusted net tangible asset value per Share would increase from net liabilities as at 30 June 2006 to approximately HK\$0.097 per Share (despite the effect from the completion of subscription that announced by the Company on 29 June 2007).

Accordingly, the tangible assets and net tangible asset value per Share of the Group will be improved as a result of the Open Offer.

#### *(b) Gearing ratio/Working capital*

As stated in the Letter, the estimated net proceeds from the Open Offer will be approximately HK\$197.9 million. The Board intends to apply the net proceeds for future investment opportunities in the PRC. As at the Latest Practicable Date, the Company had not identified any specific investment targets, according to the Directors, the proceeds would put in the general working capital of the Group.

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## LETTER FROM GRAND CATHAY

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According to the Interim Report, the Group had an unaudited cash and bank balance of approximately HK\$0.5 million. Taking into consideration of the effect of the completion of the subscriptions of 347,151,037 Shares as announced by the Company on 29 June 2007, cash and bank balance of the Group will be increased by approximately HK\$40.7 million (after deducting (i) the investment in mid-cap and small cap listed securities in Hong Kong of approximately HK\$15 million and (ii) the repayment of liabilities of approximately HK\$9 million). The cash and bank balance will be increased as a result of the net proceeds from the Open Offer. With the proceeds of the Open Offer, we concur with the Directors that the liquidity of the Group would be enhanced for the benefit of the Group and the Shareholders ultimately.

### **9. Whitewash Waiver**

As at the date of the Underwriting Agreement, the Underwriter and parties acting in concert with it were interested in 68,181,818 Shares, representing approximately 17.25% of the issued share capital of the Company. In the event that the Underwriter is required to fulfil its underwriting commitment under the Underwriting Agreement in full to subscribe for all the 1,634,846,095 Offer Shares, the Underwriter and parties acting in concert with it will become interested in a total of 2,043,937,003 Shares, representing approximately 86.21% of the issued share capital of the Company as enlarged by the Open Offer. In such case, the Underwriter and parties acting in concert with it will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code accordingly. An application has been made to the Executive by the Underwriter for the Whitewash Waiver under Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that subject to the approval of the Independent Shareholders taken by way of a poll at the SGM, it will grant the Whitewash Waiver. As stated in the Letter, it is one of the conditions of the Open Offer that the Whitewash Waiver be obtained.

Based on our analysis of the terms of the Open Offer, we consider that the Open Offer is in the interests of the Company and the Shareholders as a whole. If the Whitewash Waiver is not approved by the Independent Shareholders at the SGM, the Open Offer will not proceed and the Company will lose all the benefits that are expected to be brought by the completion of the Open Offer. Accordingly, we are of the view that for the purposes of implementing the Open Offer, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM is in the interests of the Company and the Shareholders as a whole.

### **RECOMMENDATION**

Taking into account the factors and reasons as mentioned above, which include (i) reasons for the Open Offer and the use of proceeds; (ii) principal terms of the Open Offer; (iii) alternatives to the Open Offer; (iv) potential dilution effect on the shareholding interests of the Independent Shareholders; (v) absence of arrangement for application for excess Offer Shares; and (vi) financial effects of the Open Offer, we consider that, on balance, the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Independent Shareholders as a whole and would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Open Offer to be proposed at the SGM.

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## LETTER FROM GRAND CATHAY

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The Open Offer is conditional upon the approval of the Whitewash Waiver. If the Whitewash Waiver is not approved, the Open Offer will not proceed. Having taken into account our recommendation on the Open Offer above, we consider it to be fair and reasonable for the Independent Shareholders to approve the Whitewash Waiver. Accordingly, we would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,  
For and on behalf of  
**Grand Cathay Securities (Hong Kong) Limited**

**Kevin Chan**  
*Director*

**Kim Chan**  
*Director*

### 1. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 30 JUNE 2006

The financial information set out in this appendix has been extracted from the audited financial statements of the Group for each of the three years ended 30 June 2006. The auditors of the Company for the two years ended 30 June 2005 and 30 June 2006 were CCIF CPA Limited. The auditors of the Company for the year ended 30 June 2004 was Messrs. Ernst and Young.

None of the financial statement of Group for the years ended 30 June 2004, 2005 and 2006 have been qualified by the respective auditors of the Company. Messrs. Ernst & Young had issued a modified opinion for the year ended 30 June 2004. CCIF CPA Limited had also issued modified opinions for the two years ended 30 June 2005 and 2006.

For the years ended 30 June 2004, 2005 and 2006, there were no minority interest and the Company had not declared any dividends.

	<i>Notes</i>	<b>Audited Consolidated Income Statement</b>			
		<b>For the six months ended 31 December 2006 HK\$</b>	<b>2006 HK\$</b>	<b>2005 HK\$</b>	<b>2004 HK\$</b>
TURNOVER	7	–	–	–	–
Other revenue and gains	7	–	2,570	–	201
Administrative expenses		(1,603,120)	(3,945,029)	(2,381,825)	(3,722,982)
Other operating expenses		–	(2,500,000)	(21,351)	(2,050,000)
<b>LOSS FROM OPERATING ACTIVITIES</b>	<b>8</b>	<b>(1,603,120)</b>	<b>(6,442,459)</b>	<b>(2,403,176)</b>	<b>(5,772,781)</b>
Finance costs	9	(68,779)	(114,675)	(149,779)	(327,699)
<b>LOSS BEFORE TAXATION</b>		<b>(1,671,899)</b>	<b>(6,557,134)</b>	<b>(2,552,955)</b>	<b>(6,100,480)</b>
Taxation	11	–	–	–	–
<b>NET LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>12</b>	<b>(1,671,899)</b>	<b>(6,557,134)</b>	<b>(2,552,955)</b>	<b>(6,100,480)</b>
<b>LOSS PER SHARE</b>	<b>13</b>				
Basic		3.48 cents	13.7 cents	5.3 cents	13.5 cents
Diluted		N/A	N/A	N/A	N/A

		<b>For the six months ended 31 December 2006 HK\$</b>	<b>Audited Consolidated Balance Sheet As at 30 June 2006</b>		
	<i>Notes</i>		<b>2006 HK\$</b>	<b>2005 HK\$</b>	<b>2004 HK\$</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	14	60,651	75,837	106,208	82,540
Investment securities	15	–	–	9,000,000	9,000,000
Available-for-sale financial assets	15	6,500,000	6,500,000	–	–
Rental deposit		–	–	54,314	–
		<u>6,560,651</u>	<u>6,575,837</u>	<u>9,160,522</u>	<u>9,082,540</u>
<b>CURRENT ASSETS</b>					
Prepayments, deposits and other receivables		221,091	129,481	72,500	72,500
Cash and bank balances		480,232	273,821	11,223	101,493
		<u>701,323</u>	<u>403,302</u>	<u>83,723</u>	<u>173,993</u>
<b>CURRENT LIABILITIES</b>					
Other loans	17	6,710,155	4,300,000	400,000	–
Other payables and accrued liabilities		1,153,980	2,116,139	1,446,846	925,538
Due to directors	18	3,712,036	3,205,298	2,685,596	–
		<u>11,576,171</u>	<u>9,621,437</u>	<u>4,532,442</u>	<u>925,538</u>
<b>NET CURRENT LIABILITIES</b>		<u>(10,874,848)</u>	<u>(9,218,135)</u>	<u>(4,448,719)</u>	<u>(751,545)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(4,314,197)</u>	<u>(2,642,298)</u>	<u>4,711,803</u>	<u>8,330,995</u>
<b>NON-CURRENT LIABILITIES</b>					
Due to a director	18	–	–	828,404	2,027,998
Due to a shareholder	19	–	–	2,734,401	2,601,044
		<u>–</u>	<u>–</u>	<u>3,562,805</u>	<u>4,629,042</u>
<b>NET (LIABILITIES)/ASSETS</b>		<u><u>(4,314,197)</u></u>	<u><u>(2,642,298)</u></u>	<u><u>1,148,998</u></u>	<u><u>3,701,953</u></u>
<b>CAPITAL AND RESERVES</b>					
Issued capital	20	480,000	480,000	4,800,000	4,800,000
Reserves	22(b)	(4,794,197)	(3,122,298)	(3,651,002)	(1,098,047)
		<u>(4,314,197)</u>	<u>(2,642,298)</u>	<u>1,148,998</u>	<u>3,701,953</u>

**MODIFIED OPINIONS****For the year ended 30 June 2006***Fundamental uncertainty relating to the going concern basis*

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. As further explained in Note 2 to the financial statements, which report net liabilities of HK\$2,642,298 of the Company and the Group, respectively, at 30 June 2006, have been prepared on the going concern basis, the validity of which is dependent upon the completion of the Subscription as disclosed in Note 25 (ii) to the financial statements and the Company will be able to obtain a shareholder's loan of HK\$5 million upon completion of the Subscription. The financial statements do not include any adjustments that would result from the failure to obtain the continued financial support from the shareholder of the Company. We consider that appropriate disclosures and estimates have been made in the financial statements and our opinion is not qualified in this respect.

**For the year ended 30 June 2005***Fundamental uncertainty relating to the going concern basis*

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. As further explained in note 3 to the financial statements, which report net current liabilities of HK\$4,448,719 of the Company and the Group, respectively, at 30 June 2005, have been prepared on the going concern basis, the validity of which is dependent upon the continued financial support from a shareholder of the Company. The financial statements do not include any adjustments that would result from the failure to obtain the continued financial support from the shareholder of the Company. We consider that appropriate disclosures and estimates have been made in the financial statements and our opinion is not qualified in this respect.

**For the year ended 30 June 2004***Fundamental uncertainty relating to the going concern basis*

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. As further explained in note 3, the financial statements, which report net current liabilities of HK\$751,545 of the Company and of the Group, respectively, at 30 June 2004, have been prepared on a going concern basis, the validity of which is dependent upon the continued financial support from a shareholder and a related company of the Group. The financial statements do not include any adjustments that would result from failure to obtain such continued financial support. We consider disclosures and estimates have been made in the financial statements and our opinion is not qualified in this respect.



## 2. THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The following information has been extracted from the annual report of the Company for the year ended 30 June 2006.

**Consolidated Income Statement**

*Year ended 30 June 2006*

	<i>Notes</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
TURNOVER	7	–	–
Other revenue and gains	7	2,570	–
Administrative expenses		(3,945,029)	(2,381,825)
Other operating expenses		<u>(2,500,000)</u>	<u>(21,351)</u>
LOSS FROM OPERATING ACTIVITIES	8	(6,442,459)	(2,403,176)
Finance costs	9	<u>(114,675)</u>	<u>(149,779)</u>
LOSS BEFORE TAXATION		(6,557,134)	(2,552,955)
Taxation	11	<u>–</u>	<u>–</u>
NET LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS	12	<u><u>(6,557,134)</u></u>	<u><u>(2,552,955)</u></u>
LOSS PER SHARE	13		
Basic		<u>13.7 cents</u>	<u>5.3 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**Consolidated Balance Sheet**

30 June 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	75,837	106,208
Investment securities	15	–	9,000,000
Available-for-sale financial assets	15	6,500,000	–
Rental deposit		–	54,314
		<u>6,575,837</u>	<u>9,160,522</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		129,481	72,500
Cash and bank balances		273,821	11,223
		<u>403,302</u>	<u>83,723</u>
<b>CURRENT LIABILITIES</b>			
Other loans	17	4,300,000	400,000
Other payables and accrued liabilities		2,116,139	1,446,846
Due to directors	18	3,205,298	2,685,596
		<u>9,621,437</u>	<u>4,532,442</u>
<b>NET CURRENT LIABILITIES</b>		<u>(9,218,135)</u>	<u>(4,448,719)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(2,642,298)</u>	<u>4,711,803</u>
<b>NON-CURRENT LIABILITIES</b>			
Due to a director	18	–	828,404
Due to a shareholder	19	–	2,734,401
		<u>–</u>	<u>3,562,805</u>
<b>NET (LIABILITIES)/ASSETS</b>		<u><u>(2,642,298)</u></u>	<u><u>1,148,998</u></u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	20	480,000	4,800,000
Reserves	22(b)	(3,122,298)	(3,651,002)
		<u>(2,642,298)</u>	<u>1,148,998</u>

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

	<b>Issued capital</b> <i>HK\$</i>	<b>Share premium account</b> <i>HK\$</i>	<b>Capital reserve</b> <i>HK\$</i>	<b>Investment revaluation reserve</b> <i>HK\$</i>	<b>Accumulated losses</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
At 1 July 2004	4,800,000	32,098,292	–	(3,500,000)	(29,696,339)	3,701,953
Loss for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(2,552,955)</u>	<u>(2,552,955)</u>
At 30 June 2005 and 1 July 2005	4,800,000	32,098,292*	–	(3,500,000)*	(32,249,294)*	1,148,998
Capital reduction (Note 20)	(4,320,000)	–	–	–	4,320,000	–
Waiver of amount due to a shareholder	–	–	2,765,838	–	–	2,765,838
Loss for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(6,557,134)</u>	<u>(6,557,134)</u>
At 30 June 2006	<u>480,000</u>	<u>32,098,292*</u>	<u>2,765,838*</u>	<u>(3,500,000)*</u>	<u>(34,486,428)*</u>	<u>(2,642,298)</u>

\* These reserve accounts comprise the consolidated debit reserve of HK\$3,122,298 (2005: a debit reserve of HK\$3,651,002) in the consolidated balance sheet.

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

	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(6,557,134)	(2,552,955)
Adjustments for:		
Finance costs	114,675	149,779
Interest income	(2,570)	–
Loss on disposal of property, plant and equipment	–	21,351
Depreciation	30,371	17,458
Impairment of available-for-sale financial assets	2,500,000	–
	<u>(3,914,658)</u>	<u>(2,364,367)</u>
Operating loss before working capital changes	(3,914,658)	(2,364,367)
Increase in a rental deposit	–	(54,314)
Increase in prepayments, deposits and other receivables	(2,667)	–
Increase in other payables and accrued liabilities	115,096	371,529
Increase in amounts due to directors	1,189,000	486,002
	<u>(2,613,229)</u>	<u>(1,561,150)</u>
Net cash outflow from operating activities	(2,613,229)	(1,561,150)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	2,570	–
Purchases of property, plant and equipment	–	(113,801)
Proceeds from disposal of investment securities	–	51,324
	<u>2,570</u>	<u>(62,477)</u>
Net cash inflow/(outflow) from investing activities	2,570	(62,477)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New other loans	2,400,000	400,000
Advances from directors	475,000	1,000,000
Increase in amount due to a shareholder	–	133,357
Interest paid	(1,743)	–
	<u>2,873,257</u>	<u>1,533,357</u>
Net cash inflow from financing activities	2,873,257	1,533,357
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>262,598</b>	<b>(90,270)</b>
Cash and cash equivalents at beginning of year	11,223	101,493
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>273,821</u></b>	<b><u>11,223</u></b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<u>273,821</u>	<u>11,223</u>

**Balance Sheet***As at 30 June 2006*

	<i>Notes</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	75,837	106,208
Interests in subsidiaries	16	6,500,000	9,000,000
Rental deposit		—	54,314
		<u>6,575,837</u>	<u>9,160,522</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		129,481	72,500
Cash and bank balances		273,821	11,223
		<u>403,302</u>	<u>83,723</u>
<b>CURRENT LIABILITIES</b>			
Other loans	17	4,300,000	400,000
Other payables and accrued liabilities		2,116,139	1,446,846
Due to directors	18	3,205,298	2,685,596
		<u>9,621,437</u>	<u>4,532,442</u>
<b>NET CURRENT LIABILITIES</b>		<u>(9,218,135)</u>	<u>(4,448,719)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(2,642,298)</u>	<u>4,711,803</u>
<b>NON-CURRENT LIABILITIES</b>			
Due to directors	18	—	828,404
Due to a shareholder	19	—	2,734,401
		<u>—</u>	<u>3,562,805</u>
		<u>(2,642,298)</u>	<u>1,148,998</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	20	480,000	4,800,000
Reserves	22(b)	(3,122,298)	(3,651,002)
		<u>(2,642,298)</u>	<u>1,148,998</u>

**Notes to the Financial Statements***As at 30 June 2006***1. CORPORATE INFORMATION**

Prime Investments Holdings Limited (the “Company”) was incorporated on 12 July 2000 in the Cayman Islands under the Companies Law as an exempted company with limited liability. With effect from 9 May 2006, the Company has been de-registered from the Cayman Islands and duly continued in Bermuda as an exempt company under the laws of Bermuda. The address of the registered office of the Company has been changed from Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies to Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

The Company’s principal place of business is located at Room 504, 5/F, Chinachem Tower, 34-37 Connaught Road Central, Central, Hong Kong.

The Company is an investment holding company while the Group is principally engaged in the investment of listed and unlisted companies established and/or doing business in Hong Kong and other parts of the PRC.

These consolidated financial statements are presented in HK dollars unless otherwise stated.

**2. GOING CONCERN CONCEPT**

The Group had a net loss attributable to shareholders of HK\$6,557,134 for the year ended 30 June 2006 (2005: loss of HK\$2,552,955). The Group and the Company had consolidated net current liabilities and net current liabilities of HK\$9,218,135 (2005: net current liabilities – Group – HK\$4,448,719 and Company HK\$4,448,719), consolidated net liabilities and net liabilities of HK\$2,642,298 and consolidated accumulated losses of HK\$34,486,428 (2005: HK\$32,249,294) and accumulated losses of HK\$37,986,428 (2005: HK\$35,749,294) at 30 June 2006. During the year, the net asset value of the Group further deteriorated, which was largely due to the impairment on available-for-sale financial assets.

The financial statements have been prepared on the basis that the Company and the Group will continue to operate as a going concern as the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the followings:

- (i) On 30 November 2005, a deed of waiver was entered into between the Company and Oceanwide Investments Limited (“Oceanwide”), a shareholder of the Company, pursuant to which, Oceanwide agreed to waive the debt with accrued interest of HK\$2,765,838 due by the Company as detailed in Note 19 to the financial statements and confirmed to provide the Company with continuous financial support to meet its liabilities as and when they fall due;
- (ii) On 2 November 2005, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash of HK\$8,000,000 for a total of 89,142,857 Subscription Shares which represented the subscription price of approximately HK\$0.0897 per Subscription Share; and the completion of the Subscription Agreement is conditional upon, the Listing Committee of the Stock Exchange granting approval of the listing and permission to deal in new shares in issue and consent in principle of the Stock Exchange to the resumption of trading if New Shares in issue having been obtained; and
- (iii) The Company will be able to obtain a shareholder’s loan of HK\$5 million upon completion of the Subscription as mentioned in the above paragraph.

The directors believe the Group and the Company will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Group and the Company fail to continue as a going concern.

If the going concern basis were not be appropriate, adjustments would have to be made to restate the values of the Group's and the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

### 3. PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are discussed in Note 5.

#### *The adoption of new/revised HKFRS*

In the current year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations, the 2005 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 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 7, 8, 10, 21, 24, 27, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has not affected other disclosures
- HKASs 7, 8, 10, 27, 33 and 36 had no material effect in the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 July 2005. At 1 July 2005, the Company reclassified its investment securities with a carrying amount of HK\$9,000,000 to available-for-sale financial assets. The adoption of HKAS 39 has had no impact on the Company’s results for the current or prior accounting periods.

*Standards, interpretations and amendments that are not yet effective*

The Group has not early adopted the following new standards, interpretations or amendments which have been issued but are not yet effective. The adoption of these new HKFRS is not expected to result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 5 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instrument: Disclosures
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environment Rehabilitation Funds
HKFRS (IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
HKFRS (IFRIC)-Int 7	Financial Reporting in Hyperinflationary Economic

**(b) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2006. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**(c) 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.

The results of subsidiaries are included in the Company’s income statement to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

**(d) Related parties**

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



**(e) Impairment of assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

Where an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**(f) Property, plant and equipment and depreciation**

Property, plant and equipment are stated at 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 assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period 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 asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture and fixtures	25%
Office equipment	33 $\frac{1}{3}$ %

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

**(g) Leased assets**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

**(h) Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

**(i) Investments**

From 1 July 2004 to 30 June 2005:

The Group classified its investments in securities, other than subsidiaries, as non-trading securities.

*(i) Non-trading securities*

Investments which were held for non-trading purpose are stated at fair value at the balance sheet date. Changes in fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or when the individual security was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired, the cumulative loss recorded in the investment revaluation reserve was taken to the income statement.

From 1 July 2005 onwards:

The Group classified its investments in the following categories: at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and re-evaluation this designation at every reporting date.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are substantially carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the income statement as gains or losses from investment securities.

The fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(j) **Deferred income tax**

Deferred income 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 financial statements. However, if the deferred income tax arises from initial recognition of an asset or liabilities 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 income 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 income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated 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.

(k) **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:

- (a) income from securities trading, when the transactions are completed; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(l) **Employee benefits**

(i) *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(ii) *Pension scheme and other retirement benefits*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iii) *Share based payments*

The group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period.

**(m) Foreign currency translation***(i) Functional and presentation currency*

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

*(ii) 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 currency 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 difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

*(iii) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

**(n) Other receivables**

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 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.

**(o) Provisions**

Provisions are recognised when the Group of the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using the pre-tax rate that reflects current market assessments.

#### 4. FINANCIAL RISK MANAGEMENT

##### (a) Financial risk factors

The Group's activities expose to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial matters and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the accountant under the guidance approved by the board of directors. The Group identifies, evaluates, and hedges financial risks in close co-operation with the Group's operating units. The board provides guidance for overall risk management, covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and investment of excess liquidity.

##### (i) Market risk

###### (1) Foreign exchange risk

Most of the Group's investments are located in the PRC where the official currency is RMB. The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

###### (2) Price risk

The Group is exposed to equity security price risk through its investments in equity securities designated as available-for-sale financial assets. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

##### (ii) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies that limit the amount of credit exposure to any financial institution.

##### (iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping sufficient cash and marketable securities.

##### (iv) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets. The Group's income and cash flows are substantially independent of changes in market interest rates.

##### (b) Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, non-floating shares in PRC investment) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for non-floating shares in PRC investment with reference to the shares compensation proposal of the investee's equity reform scheme.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Fair value of financial instruments

Fair value of financial instruments that are not traded in an active market is determined by using valuation techniques as detailed in Note 4 (b). The Group uses its judgement to select from a variety of methods and make assumptions that are mainly based on market conditions existing at balance sheet date.

### (b) Estimated impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 when determining whether a significant or prolonged decline in the fair value of an investment classified as available-for-sale financial assets is an indicator of impairment other than temporary. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of this investment is less than its cost; and the expected time span the Group will hold this investment. In addition, the Group assesses the annual and semi-annual operating results of the investment. Based on the Group's estimation, impairment of HK\$2,500,000 has been made on available-for-sale financial assets.

## 6. SEGMENT INFORMATION

The Group is principally engaged in the investment in listed and unlisted companies. Accordingly, no analysis of segmental information by principal activity is presented. No geographical analysis is presented as none of the Group's turnover, results, assets and liabilities are attributable to markets outside the People's Republic of China (including Hong Kong).

## 7. TURNOVER, OTHER REVENUE AND GAINS

The Group is principally engaged in the investment in listed and unlisted companies. An analysis of turnover, other revenue and gains is as follows:

	2006 HK\$	2005 HK\$
<b>Turnover</b>		
Proceeds from sale of trading securities	—	—
<b>Other revenue and gains</b>		
Interest income	2,570	—

**8. LOSS FROM OPERATING ACTIVITIES**

The Group's loss from operating activities is arrived at after charging:

	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
Depreciation	30,371	17,458
Lease payments under operating leases on land and buildings	243,772	34,544
Auditors' remuneration	130,000	130,000
Staff costs (excluding directors' remuneration, see note 10 ): Wages and salaries	426,000	329,399
Pension scheme contributions*	34,070	17,013
	<u>460,070</u>	<u>346,412</u>
Loss on disposal of property, plant and equipment	–	21,351
Impairment of available-for-sale financial assets**	<u>2,500,000</u>	<u>–</u>

\* At 30 June 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

\*\* Included in "Other operating expenses" on the face of the consolidated income statement.

**9. FINANCE COSTS**

	<b>2006</b> <i>HK\$</i>	<b>Group</b> <b>2005</b> <i>HK\$</i>
Interest expense on:		
Other loans	57,495	19,703
Advances from directors	23,999	53,020
Advance from a shareholder	31,438	77,056
Other payables	1,743	–
	<u>114,675</u>	<u>149,779</u>

**10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION**

	<b>2006</b> <i>HK\$</i>	<b>Group</b> <b>2005</b> <i>HK\$</i>
Fees	<u>61,250</u>	<u>75,000</u>
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	1,200,000	900,000
Pension scheme contributions	12,300	10,000
	<u>1,212,300</u>	<u>910,000</u>
	<u>1,273,550</u>	<u>985,000</u>

## (a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 30 June 2006 and 2005 is set out below:

	Directors' Fees <i>HK\$</i>	Salaries, allowances and benefits in kind <i>HK\$</i>	Discretionary bonuses <i>HK\$</i>	Share-based payments <i>HK\$</i>	Retirement scheme contributions <i>HK\$</i>	2006 Total <i>HK\$</i>
<i>Executive directors</i>						
Wang Wenxia, Wendy	-	1,200,000	-	-	-	1,200,000
Pong Po Lam, Pual	15,000	-	-	-	-	15,000
Lau Sze Shing, Edward	-	-	-	-	-	-
Chiu Kam Hing, Kathy	8,125	-	-	-	-	8,125
Ho Chiu King, Pansy	8,125	-	-	-	-	8,125
Wu Shenbin	-	-	-	-	-	-
<i>Non-executive directors</i>						
Lan Ning	-	-	-	-	-	-
Chan Po Fun, Peter	15,000	-	-	-	-	15,000
Ding Xiaobin	-	-	-	-	-	-
Chan Man Yee	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
Cheung Wai Bun, Charles	15,000	-	-	-	-	15,000
Zhang Yong	-	-	-	-	-	-
Gu Qiu Rong	-	-	-	-	-	-
	<u>61,250</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,261,250</u>



	Directors' Fees HK\$	Salaries, allowances and benefits in kind HK\$	Discretionary bonuses HK\$	Share-based payments HK\$	Retirement scheme contributions HK\$	2005 Total HK\$
<i>Executive directors</i>						
Wang Wenxia, Wendy	-	550,000	-	-	-	550,000
Pong Po Lam, Pual	15,000	-	-	-	-	15,000
Lau Sze Shing, Edward	-	350,000	-	-	-	350,000
Chiu Kam Hing, Kathy	15,000	-	-	-	-	15,000
Ho Chiu King, Pansy	15,000	-	-	-	-	15,000
Wu Shenbin	-	-	-	-	-	-
<i>Non-executive directors</i>						
Lan Ning	-	-	-	-	-	-
Chan Po Fun, Peter	15,000	-	-	-	-	15,000
Ding Xiaobin	-	-	-	-	-	-
Chan Man Yee	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
Cheung Wai Bun, Charles	15,000	-	-	-	-	15,000
Zhang Yong	-	-	-	-	-	-
Gu Qiu Rong	-	-	-	-	-	-
	<u>75,000</u>	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>975,000</u>

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

**(b) Five highest paid individuals**

The five highest paid individuals during the year included two (2005: two) directors, details of whose remuneration are set out in Note 10 (a) above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid individuals for the year are as follows:

	<b>Group</b>	
	<b>2006</b> HK\$	<b>2005</b> HK\$
Basic salaries, housing allowances, other allowances and benefits in kind	1,613,838	329,399
Pension scheme contributions	<u>32,541</u>	<u>17,013</u>
	<u>1,646,379</u>	<u>346,412</u>

Except for the remuneration of one director fell within the remuneration band of HK\$1,000,001 to HK\$1,500,000. The remuneration of the remaining four individuals fell within the remuneration band of Nil to HK\$1,000,000.

**11. TAXATION**

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil).

A reconciliation of the tax expense applicable to loss before tax using the statutory rate to the tax at the effective tax rate is as follows:

**Group**

	2006		2005	
	HK\$	%	HK\$	%
Loss before taxation	<u>(6,557,134)</u>		<u>(2,552,955)</u>	
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	(1,147,496)	17.5	(446,767)	17.5
Expenses not deductible for tax	542,713	(6.7)	–	–
Deferred tax liabilities not recognised	4,108	(0.1)	(1,866)	–
Tax losses not recognised	<u>600,675</u>	<u>(10.7)</u>	<u>448,633</u>	<u>(17.5)</u>
Tax at effective rate	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group has tax losses arising in Hong Kong of HK\$9,459,384 (2005: HK\$9,459,384) that are available indefinitely for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the Group has been loss-making for some time. There were no material unprovided deferred taxation for the year. (2005: nil).

**12. NET LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS**

The net loss for the year attributable to shareholders for the year ended 30 June 2006 dealt with in the financial statements of the Company, was HK\$6,557,134 (2005: HK\$2,552,955).

**13. LOSS PER SHARE**

The calculation of the basic loss per share is based on the net loss for the year attributable to shareholders of HK\$6,557,134 (2005: HK\$2,552,955) and the weighted average of 48,000,000 (2005: 48,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 30 June 2006 and 2005 have not been disclosed as no diluting events existed during these two years.

## 14. PROPERTY, PLANT AND EQUIPMENT

Group and Company	Furniture and fixtures <i>HK\$</i>	Office equipment <i>HK\$</i>	Total <i>HK\$</i>
Cost:			
At 1 July 2004	113,707	215,548	329,255
Additions	90,745	23,056	113,801
Disposals	(113,707)	(215,548)	(329,255)
	<u>90,745</u>	<u>23,056</u>	<u>113,801</u>
At 30 June 2005 and 30 June 2006	<u>90,745</u>	<u>23,056</u>	<u>113,801</u>
Accumulated depreciation:			
At 1 July 2004	62,211	184,504	246,715
Charge for the year	10,409	7,049	17,458
Disposals	(66,948)	(189,632)	(256,580)
	<u>5,672</u>	<u>1,921</u>	<u>7,593</u>
At 30 June 2005	<u>5,672</u>	<u>1,921</u>	<u>7,593</u>
Charge for the year	22,686	7,685	30,371
	<u>28,358</u>	<u>9,606</u>	<u>37,964</u>
At 30 June 2006	<u>28,358</u>	<u>9,606</u>	<u>37,964</u>
Net book value:			
At 30 June 2006	<u>62,387</u>	<u>13,450</u>	<u>75,837</u>
At 30 June 2005	<u>85,073</u>	<u>21,135</u>	<u>106,208</u>

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group Available-for-sale financial assets 2006 <i>HK\$</i>	Investment securities 2005 <i>HK\$</i>
Unlisted equity securities, at cost	15,000,000	15,000,000
Provision for impairment loss	(8,500,000)	(6,000,000)
	<u>6,500,000</u>	<u>9,000,000</u>

As at 30 June 2006, the carrying amounts and further details of interests in the investments were as follows:

Name	Place of incorporation	Particulars of equity interests held	Investment value		Interest held
			Acquisition cost HK\$	At fair value HK\$	
China Link Investment Group Limited ("China Link") (note i)	British Virgin Islands ("BVI")	Ordinary shares of US\$1.00 each	5,000,000	4,000,000	22%
Zhongshan Chinese Standard Building Materials Company Limited (note ii)	The PRC	Registered capital of RMB525,000	5,000,000	2,500,000	1.97%
Sunkock Development Limited ("Sunkock") (note iii)	Hong Kong	Ordinary shares of HK\$1.00 each	5,000,000	–	20%

Notes:

- (i) China Link is principally engaged in the development of a website providing on-line professional consultancy services in the PRC. China Link is not accounted for as an associate as, in the opinion of the directors, the Group has no significant influence over its financial and operating decisions. In February 2004, the investee company of China Link became an overseas listed company through a reverse take-over exercise.
- (ii) Zhongshan Chinese Standard Building Materials Company Limited is principally engaged in the production and distribution of window frames in the PRC.
- (iii) Sunkock is principally engaged in the development of medical products in the PRC.

On 1 July 2005, investment securities classified as non-current assets were designated as available-for-sale financial assets upon adoption of HKAS 39. At 30 June 2005, the investment securities amounted to HK\$9,000,000.

During the year, the directors considered that there was an impairment in the investment in Sunkock as a result of substantial loss incurred by Sunkock and the provision of HK\$2,500,000 was based on the best estimate of the directors, taking into account of all available information.

#### 16. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$	2005 HK\$
Unlisted shares, at cost	32	32
Due from subsidiaries	18,499,968	18,499,968
	18,500,000	18,500,000
Provision for impairment loss	(12,000,000)	(9,500,000)
	<u>6,500,000</u>	<u>9,000,000</u>

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

At 30 June 2006, particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity directly attributable to the Company	Principal activities
Double Lucky Investment Co., Ltd.	BVI	1 ordinary share of US\$1.00	100	Investment holding
Sun Talent Investment Co., Ltd.	BVI	1 ordinary share of US\$1.00	100	Investment holding
Market Place Investment Co., Ltd.	BVI	1 ordinary share of US\$1.00	100	Investment holding
Glorison Limited	BVI	1 ordinary share of US\$1.00	100	Investment holding

#### 17. OTHER LOANS

Except for loans of HK\$1,000,000 and HK\$200,000 from two independent third parties and a loan of HK\$1,500,000 from a former director which bear interest at the rate of 4.5%, 10% and 3% per annum, respectively; other loans are unsecured, interest free and repayable within one year.

#### 18. DUE TO DIRECTORS

Except for amount of HK\$1,000,000 (2005: HK\$1,000,000) due to a director which bears interest at the rate of 2.4% per annum, the amounts due to directors are unsecured, interest-free and repayable within one year.

#### 19. DUE TO A SHAREHOLDER

On 30 November 2005, a deed of waiver was entered into between the Company and Oceanwide Investments Limited ("Oceanwide"), a shareholder of the Company, pursuant to which, Oceanwide agreed to waive the debt with accrued interest amounted to HK\$2,765,838 due by the Company.

## 20. ISSUED CAPITAL

	Number of shares	2005 HK\$
Authorised:		
Ordinary shares of HK\$0.10 each	<u>200,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	<u>48,000,000</u>	<u>4,800,000</u>
	Number of shares	2006 HK\$
Authorised:		
Ordinary shares of HK\$0.10 each	200,000,000	20,000,000
Subdivided each unissued share capital into 10 shares of HK\$0.01 each (a)	<u>1,800,000,000</u>	—
	<u>2,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	48,000,000	4,800,000
Capital reduction (a)	—	(4,320,000)
Ordinary share of HK\$0.01 each	<u>48,000,000</u>	<u>480,000</u>

## (a) Capital reduction

By a resolution passed at the extraordinary general meeting of the Company held on 6 April 2006, it was resolved that with effect from 9 May 2006:

- (i) the nominal value of each of the issued share of HK\$0.1 each was reduced from HK\$0.1 each to New Share of HK\$0.01 each by canceling the issued share capital to the extent of HK\$0.09 on each of the issued share;
- (ii) each of the authorised but unissued share capital of the Company was sub-divided into 10 New Shares of HK\$0.01 each; and
- (iii) utilize the entire credit arising from the capital reduction of HK\$4,320,000 to eliminate part of the accumulated losses of the Company.

## 21. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

On 24 May 2001, the Company approved the Scheme under which the directors may, at their discretion, grant to full-time employees and executive directors of the Group, the right to take up options to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company’s shares on the Stock Exchange on 8 June 2001 and unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Subsequent to the adoption of the Scheme on 24 May 2001, the Stock Exchange introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) on share option schemes. These new rules came into effect on 1 September 2001. No share options have been granted under the Scheme since the adoption of these new rules on 1 September 2001. However, any option to be granted under the Scheme shall be subject to the new changes which include, inter alia, the following:

- (a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting;

- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and
- (c) the exercise price of share options is determined by directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

Under the existing Scheme, the maximum number of shares over which options may be granted may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person. The subscription price of the options is to be subject to a minimum which is the higher of the nominal value of a share and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1. The options granted can be exercised at any time during a period specified by the directors, which commences on the grant date and expires on the last day of such period, and in any event such period must not be less than 3 years and not more than 10 years from the grant date of the options.

The Company amended the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

## 22. RESERVES

### (a) Group

The movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

### (b) Company

	Share premium account HK\$	Capital reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2004	32,098,292	–	(33,196,339)	(1,098,047)
Loss for the year	–	–	(2,552,955)	(2,552,955)
At 30 June 2005 and 1 July 2005	32,098,292	–	(35,749,294)	(3,651,002)
Capital reduction ( <i>Note 20</i> )	–	–	4,320,000	4,320,000
Waiver of amount due to a shareholder	–	2,765,838	–	2,765,838
Loss for the year	–	–	(6,557,134)	(6,557,134)
At 30 June 2006	<u>32,098,292</u>	<u>2,765,838</u>	<u>(37,986,428)</u>	<u>(3,122,298)</u>

Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 June 2006. At 30 June 2006 and 2005, the Company did not have any reserves available for distribution.

**23. OPERATING LEASE ARRANGEMENTS**

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>
Within one year	107,991	170,352
In the second to fifth years, inclusive	—	107,991
	<u>107,991</u>	<u>278,343</u>

**24. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances disclosed in Notes 18 and 19 to the financial statements, significant related party transactions, which were carried out in the normal course of the Group's business, are summarised as follows:

	<i>Notes</i>	<b>2006</b>	<b>2005</b>
		<i>HK\$</i>	<i>HK\$</i>
Investment management fee paid/payable to			
Glory Investment Assets Limited	(i)	—	100,189
Interest expense paid/payable to a director	(ii)	23,999	8,022
Interest expense paid/payable to a shareholder	(iii)	31,348	77,056
Interest expense paid/payable to a former director	(iv)	<u>44,998</u>	<u>44,998</u>

- (i) Pursuant to the Investment Management Agreement dated 24 May 2001 entered into between the Company and Glory Investment Assets Limited (the "Investment Manager"), the Investment Manager provides investment management services and general administrative services to the Group. Under this arrangement, the Investment Manager is entitled to a monthly management fee payable in advance, calculated at 2.5% per annum of the net asset value of the Group as at the end of the preceding month on the basis of the actual number of days in the relevant calendar month over a year of 365 days. In addition, the Investment Manager is also entitled to 15% of the surplus in net asset value of the Group over a financial year or period.

Pursuant to a supplemental agreement to the Investment Management Agreement dated 25 June 2002 entered into between the Company and the Investment Manager (the "Supplemental Agreement"), the monthly management fee payable in advance was reduced from 2.5% per annum to 2.0% per annum of the net asset value of the Group as at the end of the preceding month, calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The Supplemental Agreement became effective on 2 August 2002.

Ms. Chiu Kam Hing, Kathy, an ex-executive director of the Company, has a 30% equity interest in the Investment Manager.

The Investment Management Agreement expired on 4 July 2005, no management fee was paid/payable during the year.

- (ii) The interest expense paid to a director of the Company relates to an advance granted, further details of which are included in Note 18 to the financial statements.
- (iii) The interest expense paid to a shareholder of the Company related to an advance granted, the advance together with accrued interest amounted to HK\$2,765,838 was waived by the shareholder, further details of which are included in Note 19 to the financial statements.
- (iv) The interest expense paid to a former director of the Company relates to an advance granted, further details of which are included in Note 17 to the financial statements.



**25. POST BALANCE SHEET EVENTS**

- (i) Pursuant to an investment management agreement dated 21 February 2006 and subsequently amended on 1 August 2006, Pegasus Fund Managers Limited ("Pegasus"), whereby Pegasus has agreed to provide investment management services to the Company for a period of three years effective from 1 August 2006. Pegasus is entitled to from the Company a management fee calculated at the following rates:
- (1) 2.5% per annum of the net asset value of the Group as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days, subject to a monthly minimum fee of HK\$30,000.
  - (2) 10% of the surplus in net asset value of the Group over a financial year or period, which the surplus in the net asset value should be greater than HK\$30,000,000.
- (ii) On 2 November 2005, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash of HK\$8,000,000 for a total of 89,142,857 Subscription Shares which represented the subscription price of approximately HK\$0.0897 per Subscription Share.

The completion of the Subscription Agreement is conditional upon, the Listing Committee of the Stock Exchange granting approval of the listing and permission to deal in the New Shares in issue and consent in principle of the Stock Exchange to the resumption of trading of New Shares in issue on the Stock Exchange having been obtained.

**26. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 23 October 2006.

### 3. THE UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

The following information has been extracted from the interim report of the Company for the six months ended 31 December 2006.

#### Condensed Consolidated Income Statement

For the six months ended 31 December 2006

		Six months ended 31 December (Unaudited)	
	<i>Notes</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
TURNOVER	5	–	–
Other income	5	–	2,570
Administrative expenses		<u>(1,603,120)</u>	<u>(1,613,946)</u>
LOSS FROM OPERATING ACTIVITIES	6	(1,603,120)	(1,611,376)
Finance costs	7	<u>(68,779)</u>	<u>(45,278)</u>
LOSS BEFORE TAXATION		(1,671,899)	(1,656,654)
Taxation	8	<u>–</u>	<u>–</u>
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		<u>(1,671,899)</u>	<u>(1,656,654)</u>
Dividend		<u>Nil</u>	<u>Nil</u>
LOSS PER SHARE	9		
Basic		<u>3.48 cents</u>	<u>3.45 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**Condensed Consolidated Balance Sheet***As at 31 December 2006*

	<i>Notes</i>	<b>31.12.2006</b> <b>(Unaudited)</b> <i>HK\$</i>	<b>30.6.2006</b> <b>(Audited)</b> <i>HK\$</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		60,651	75,837
Available-for-sale financial assets	11	6,500,000	6,500,000
		<u>6,560,651</u>	<u>6,575,837</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		221,091	129,481
Cash and bank balances		480,232	273,821
		<u>701,323</u>	<u>403,302</u>
<b>CURRENT LIABILITIES</b>			
Other loans	12	6,710,155	4,300,000
Other payables and accrued liabilities		1,153,980	2,116,139
Due to directors	13	3,712,036	3,205,298
		<u>11,576,171</u>	<u>9,621,437</u>
<b>NET CURRENT LIABILITIES</b>		<u>(10,874,848)</u>	<u>(9,218,135)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(4,314,197)</u>	<u>(2,642,298)</u>
<b>NON-CURRENT LIABILITIES</b>		–	–
<b>NET ASSETS/ (LIABILITIES)</b>		<u><u>(4,314,197)</u></u>	<u><u>(2,642,298)</u></u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	14	480,000	480,000
Reserves		(4,794,197)	(3,122,298)
		<u>(4,314,197)</u>	<u>(2,642,298)</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2006

	unaudited					
	Issued Capital HK\$	Share Premium HK\$	Investment Revaluation Reserve HK\$	Capital Reserve HK\$	Accumulated Losses HK\$	Total HK\$
At 1 July 2005	4,800,000	32,098,292	(3,500,000)	–	(32,249,294)	1,148,998
Amount waived by a shareholder (note)	–	–	–	2,765,838	–	2,765,838
Loss for the period	–	–	–	–	(1,656,654)	(1,656,654)
At 31 December 2005 and 1 January 2006	4,800,000	32,098,292	(3,500,000)	2,765,838	(33,905,948)	2,258,182
Capital Reduction (Note 15)	(4,320,000)				4,320,000	–
Loss for the period	–	–	–	–	(4,900,480)	(4,900,480)
At 30 June 2006 and 1 July 2006	480,000	32,098,292	(3,500,000)	2,765,838	(34,486,428)	(2,642,298)
Loss for the period	–	–	–	–	(1,671,899)	(1,671,899)
At 31 December 2005	<u>480,000</u>	<u>32,098,292</u>	<u>(3,500,000)</u>	<u>2,765,838</u>	<u>(36,158,327)</u>	<u>(4,314,197)</u>

*Note:* On 30 November 2005, a deed of waiver made between the Company and a shareholder, pursuant to which, the shareholder agreed to waive the debt of HK\$2,765,838 (including the amount of HK\$2,734,401 brought forward from 30 June 2005) due by the Company.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 31 December 2006*

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>(unaudited)</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>
Net cash outflow from operating activities	(907,113)	(850,431)
Net cash inflow from financing activities	<u>1,113,524</u>	<u>1,447,000</u>
Net increase/ (decrease) in cash and cash equivalents during the period	206,411	596,569
Cash and cash equivalents at the beginning of the period	<u>273,821</u>	<u>11,223</u>
Cash and cash equivalents at the end Of the period	<u><u>480,232</u></u>	<u><u>607,792</u></u>
Analysis of balance of cash and cash equivalents		
Cash and bank balances	<u><u>480,232</u></u>	<u><u>607,792</u></u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and Hong Kong Accounting Standards (“HKASs”) and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## 2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost basis except for available-for-sale financial assets which are measured at fair value. The accounting policies in the condensed financial statements are consistent with those adopted in the preparation of the annual financial statements of the Group for the year ended 30 June 2006 except for as described below:

In the current interim period, the Company has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as the “new HKFRSs”) issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2006 respectively. The application of these new HKFRSs has no material effect on how the results of operations and financial position of the Company are prepared and presented.

The Company has not early applied the following new HKFRSs that have been issued but are not yet effective. The Company has commenced considering the potential impact of these new HKFRSs. The management anticipates the application of these new HKFRSs will have no material impact on how its results of operations and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-INT 9	Reassessment of embedded derivatives <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 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

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

Comparative figures have been reclassified to conform with the current period’s presentation.

## 3. FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market price risk, credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance.

## (a) Market price risk

The Group has equity securities and debt securities which are classified on the consolidated balance sheet as available-for-sale financial assets. These are susceptible to market price risk arising from uncertainties about the future prices of the instruments. The Group’s market price risk is managed through diversification of the investment portfolio ratios by exposures.

## (b) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any. The Group is responsible for monitoring the amount of credit exposure to any financial institution.

(c) *Liquidity risk*

The Group invests in both listed and unlisted securities. Those listed securities are considered readily realisable as they are listed in regulated stock exchanges. Those unlisted securities may not be traded in an organized public market and may be illiquid. As a result, the Group may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.

**4. INCOME AND SEGMENT INFORMATION**

The Group is principally engaged in the investment in listed and unlisted companies and all the investment decisions are made in Hong Kong SAR. Accordingly, no analysis of business segment is provided. No geographical analysis is presented as none of the Group's turnover, results, assets and liabilities are attributable to markets outside the People's Republic of China (the "PRC") (including Hong Kong).

**5. TURNOVER AND OTHER INCOME**

The Group is principally engaged in the investment in listed and unlisted companies. An analysis of the turnover and other income as follows:

	<b>Six months ended 31 December (unaudited)</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>Turnover</b>		
Proceeds from sale of trading securities	—	—
<b>Other income</b>		
Interest income	—	2,570

**6. LOSS FROM OPERATING ACTIVITIES**

The Group's loss from operating activities is arrived at after charging:

	<b>Six months ended 31 December (unaudited)</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>
Staff costs (excluding directors' remuneration)		
Salaries and wages	216,000	201,032
Pension scheme contributions	10,800	9,589
	<b>226,800</b>	210,621
Depreciation	<b>15,186</b>	15,186

## 7. FINANCE COSTS

	Six months ended 31 December (unaudited)	
	2006 HK\$	2005 HK\$
Interest expenses on other loans	56,681	33,180
Loan from a director	12,098	12,098
	<u>68,779</u>	<u>45,278</u>

## 8. TAXATION

No Hong Kong profits tax has been provided in the financial statements as the Group did not generate any assessable profits during the six months ended 31 December 2006.

## 9. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period attributable to shareholders of HK\$1,671,899 (six months ended 31 December 2005: loss of HK\$1,656,654) and the weighted average of 48,000,000 (six months ended 31 December 2005: 48,000,000) ordinary shares in issue during the period.

Diluted loss per share amounts has not been disclosed as there is no diluting events existed for both periods.

## 10. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2006 (2005: Nil).

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2006 HK\$	30.6.2006 HK\$
Unlisted equity securities, at fair value	<u>6,500,000</u>	<u>6,500,000</u>

## 12. OTHER LOANS

Except for an amount of HK\$1,500,000 due to a former director which bears interest at a rate of 3% per annum, which are repayable on or before 30 June 2007, the amounts of other loans are unsecured, interest-free and with no fixed repayment term.

## 13. DUE TO DIRECTORS

Except for an amount of HK\$1,000,000 due to a director which bears interest at a rate of 2.4% per annum, the amounts due to directors are unsecured, interest-free and repayable on or before 30 June 2007.



## 14. ISSUED CAPITAL

	<i>Number of shares</i>	<b>30.6.2006</b> <i>HK\$</i>
Authorised:		
Ordinary shares of HK\$0.10 each	200,000,000	20,000,000
Subdivided each unissued share capital into 10 Shares of HK\$0.01 each (a)	<u>1,800,000,000</u>	<u>–</u>
	<u><u>2,000,000,000</u></u>	<u><u>20,000,000</u></u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	48,000,000	4,800,000
Capital reduction (a)	<u>–</u>	<u>(4,320,000)</u>
Ordinary shares of HK\$0.01 each	<u><u>48,000,000</u></u>	<u><u>480,000</u></u>
	<i>Number of shares</i>	<b>31.12.2006</b> <i>HK\$</i>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each	<u><u>48,000,000</u></u>	<u><u>480,000</u></u>

## (a) Capital reduction

By a resolution passed at the extraordinary general meeting of the Company held on 6 April 2006, it was resolved that with effect from 9 May 2006:

- (i) the nominal value of each of the issued share of HK\$0.1 each was reduced from HK\$0.1 each to New Share of HK\$0.01 each by canceling the issued share capital to the extent of HK\$0.09 on each of the issued share.
- (ii) each of the authorised but unissued share capital of the Company was sub-divided into 10 New Shares of HK\$0.01 each; and
- (iii) utilize the entire credit arising from the Capital Reduction of HK\$4,320,000 to eliminate part of the accumulated losses of the Company.

## 15. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are summarized as follows:

	<i>Notes</i>	<b>31.12.2006</b> <i>HK\$</i>	<b>30.6.2006</b> <i>HK\$</i>
Investment management fee payable to Pegasus Fund Managers Limited	(i)	150,000	–
Interest expenses payable to a director	(ii)	<u><u>12,098</u></u>	<u><u>12,098</u></u>

- (i) Pursuant to an investment management agreement dated 21 February 2006 and subsequently effected on 1 August 2006, Pegasus Fund Managers Limited ("Pegasus"), whereby Pegasus has agreed to provide investment management services to the Company for a period of three years effective from 1 August 2006. Pegasus is entitled to from the Company a management fee calculated at the following rates:

- (1) 2.5% per annum of the net asset value of the Group as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days, subject to a monthly minimum fee of HK\$30,000.
- (2) 10% of the surplus in net asset value of the Group over a financial year or period, which the surplus in the net asset value should be greater than HK\$30,000,000.

Mr. Pong Po Lam, Paul an executive director of the Company, has a 91.57% equity interest in the Investment Manager.

- (ii) The interest expense paid to a director of the Company related to advance granted, further details of which are included in note 13 to the financial statements.

#### **16. BUSINESS REVIEW**

For the six months ended 31 December 2006, the Group reported a loss of approximately HK\$1.67 million (2005 loss: HK\$1.66 million). The loss is mainly attributable to the operating expenses in Hong Kong.

Over the period under review, the general investment environment has improved, but the overall outlook is still uncertain. The economy of the region within which we operate has shown positive signs of recovery, the Group had not made any investments during the period. All the Group's existing investments are all in unlisted equities which are long term and illiquid in nature. For this reason, although the Hong Kong stock market marked a considerable recovery, the Group did not benefit from the stock market rally.

#### **17. PROSPECT**

The Group is restructuring and consolidating its investments and tuning its financial position with an objective in minimizing losses which might arise from unsound investments, while strengthening investments with stable revenues.

On 2 November 2005, the Company and an investor entered into the Subscription Agreement, pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash of HK\$8,000,000 for a total of 89,142,857 Subscription Shares which represents the Subscription Price of approximately HK\$0.0897 per Subscription Share. The investor has undertaken to the Company that, upon completion of the Subscription Agreement, an amount of HK\$5 million will be provided to the Company by way of shareholder's loan from the investor. The shareholder's loan shall be unsecured, with a term of three years and interest rate at 4.5% per annum. The Directors believe that the Subscription and the shareholder's loan can solve the financial difficulties of the Company and help the Company in long term development.

#### **18. LIQUIDITY AND FINANCIAL POSITION**

As at 31 December 2006, the Group had cash and bank balance of HK\$480,232 (31 December 2005: HK\$607,792). Most of the cash and bank balances were placed in Hong Kong dollar deposits with a bank in Hong Kong SAR.

#### **19. FOREIGN CURRENCY FLUCTUATION**

Since the Group mainly uses Hong Kong dollars to carry out its business transactions, the Group believes that foreign exchange risk is minimal. No foreign exchange forward contract was outstanding as at 31 December 2006 (2005: Nil).

#### **20. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31 December 2006, none of the directors and chief executive had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

#### **21. DIRECTORS' RIGHTS TO ACQUIRE SHARES**

At no time during the year were rights to acquire benefits by means of the acquisition of shares of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

#### **22. EMPLOYMENT AND REMUNERATION POLICIES**

As at 31 December 2006, the Group employed a total of 2 employees. Total staff cost of the Group, excluding directors' remuneration, for the period amounted to HK\$216,000(2005: HK\$ 201,032). Employee's remuneration are fixed and determined with reference to the market rate.

### 23. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions:

Name	Note	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Oceanwide Investments Limited	(a)	Through a controlled corporation	8,500,000	17.71
Advance Elite Holdings Limited	(a)	Directly beneficially owned	8,500,000	17.71
Ms. Chan Sui Kuen	(b)	Through a controlled corporation	8,500,000	17.71
Mr. Deng Chi Yuan		Directly beneficially owned	4,830,000	10.06

#### Notes:

- (a) The ordinary shares are held by Advance Elite Holdings Limited, which is wholly-owned by Oceanwide Investments Limited.
- (b) Ms. Chan Sui Kuen was deemed to have substantial interest in 8,500,000 shares of the Company by virtue of her 12.08% indirect interest in Advance Elite Holdings Limited, which holds 8,500,000 shares of the Company, and being the spouse of a director, Mr. Lau Sze Shing, Edward, who has 28.75% indirect interest in Advance Elite Holdings Limited, of which their combined interest in the Company exceeded 5%.

Save as disclosed above, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### 24. AUDIT COMMITTEE

The Company has established an audit committee in accordance with rule 3.21 of the Listing Rules. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 31 December 2006.

### 25. COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, save as disclosed below, the Company has complied with the code provisions of the Code on Corporate Governance Practices, as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the interim report.

#### Code Provision B.1.1 to B.1.4

The Company has not established a remuneration committee in view of the Company's simple structure and low staff cost (since the Company is being managed by its investment manager pursuant to the terms of written management agreement approved by the shareholders). The Board will reconsider establishment of remuneration committee periodically.

### 26. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code during the period.

### 27. PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's ordinary shares during the period.

#### **4. INDEBTEDNESS AND CONTINGENT LIABILITIES**

As at the close of business on 31 August 2007 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the company has no any indebtedness or and contingent liabilities.

Further, apart from intra-group liabilities, the Group did not have, at the close of business on 31 August 2007, any outstanding mortgages, charges, debentures, bank loans and overdrafts, debt securities or loan notes or other similar indebtedness, loan capital issued or outstanding or agreed to be issued, finance lease, liabilities under acceptance credits or any finance leases commitments, or any guarantees or other material contingent liabilities.

As at the close of business on 31 August 2007 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), none of the companies of the Group had any loan capital issued and outstanding or agreed to be issued, any bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, obligations, under finance leases or hire purchases, guarantees of other material contingent liabilities.

#### **5. WORKING CAPITAL**

The Directors are of the opinion that after taking into account the present internal financial resources of the Group and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

#### **6. MATERIAL CHANGE**

As at the Latest Practicable Date, save for the subscription agreements that have been entered into between the Company and the relevant subscribers as disclosed by the Company in an announcement dated 10 May 2007, the Directors were not aware of any material change in the financial or trading position or outlook of the Group since 30 June 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **7. FINANCIAL REVIEW AND BUSINESS REVIEW OF THE GROUP**

##### **Financial Review**

For the year ended 30 June 2006, the Group recorded no turnover which is in the same position as that for the year ended 30 June 2005. As compared to an audited net loss of approximately HK\$2.55 million for the year ended 30 June 2005, the Group recorded an audited net loss of approximately HK\$6.56 million for the year ended 30 June 2006. It was mainly due to the lack of new capital for investment while the expenses of the Group on resumption of trading of Shares on the Stock Exchange has increased. As at 30 June 2006, the loss per Share is 13.7 cents whilst as at 30 June 2005, the loss per Share is 5.3 cents.

**Business Review**

For the year ended 30 June 2006, the Group invested in two unlisted equities which engaged in (1) the development of a website providing online professional consultancy services in the PRC and (2) the production and distribution of window frames in the PRC.

The Group had not made any major investments during the same period due to lack of new capital for investment. For the year ended 30 June 2006, the Group mainly invested in unlisted equities which are long-term and illiquid in nature. For this reason, although the Hong Kong stock market marked a considerable recovery in year 2006, the Group did not benefit from the stock market rally.

On 2 November 2005, the Company and the Poly Good entered into an subscription agreement, pursuant to which the Company agreed to allot and issue and the Poly Good agreed to subscribe in cash of HK\$8,000,000 for a total of 89,142,857 Shares which represented the subscription price of approximately HK\$0.0897 per Share.

**Future Prospects of the Group**

With a strengthened financial position in the year of 2007, the Group will be able to explore more investment opportunities across various sectors. Taking the advantage from the optimistic and continually improving economic environment in the PRC and a successful capital platform for the Chinese enterprises to raise fund in Hong Kong, the Group will actively participate in the equity market including the initial public offer and pre-IPO opportunities in Hong Kong and PRC. Also the management will carefully assess all potential investments which ensure the risk is under manageable level and at the same time maximize the Group's returns and ensure a stable return for the shareholder on a medium to long term basis such as utilities like water related projects.

With completion of the Open Offer to raise additional fund of HK\$197.9 million, the Company will have more flexibility in the implementation of its investment strategy.

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

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**1.      UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had taken place on 30 June 2006.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial picture of the Group following the Open Offer.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group as at 30 June 2006 and adjusted to reflect the effect of the Open Offer:

	<b>Audited consolidated net liabilities of the Group as at 30 June 2006 HK\$'000 (Note a)</b>	<b>Estimated net proceeds from the Open Offer HK\$'000 (Note c)</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group HK\$'000</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group per share HK\$'000</b>
After completion of the Open Offer	<u>(2,642)</u>	<u>197,951</u>	<u>260,071</u>	HK\$0.110 <i>per Share</i> <u>(Note e)</u>

*Notes:*

- (a) The consolidated net liabilities of the Group as at 30 June 2006 have been extracted from the audited consolidated financial statements of the Group as at 30 June 2006.
- (b) The estimated net proceeds from the subscription of 347,151,037 Shares is approximately HK\$64.76 million which was disclosed by the Company in an announcement dated 10 May 2007.
- (c) The estimated net proceeds from the Open Offer are calculated based on 1,975,755,185 Offer Shares to be issued at a subscription price of HK\$0.101 per Offer Share after deducting estimated expenses of approximately HK\$1.6 million.
- (d) The number of Shares used for the calculation of this amount is 2,370,906,222 and which will be the total number of Shares expected to be issued after the completion of the Open Offer representing the aggregate of the existing 395,151,037 Shares in issue as at the Latest Practicable Date and 1,975,755,185 Offer Shares to be issued pursuant to the Open Offer.
- (e) The above unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has taken into account the effect of the Subscription completed on 20 June 2007.

**2.    REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The following is the text of a report received from CCIF CPA Limited, Certified Public Accountants, in respect of the unaudited pro forma financial information of the Group for the sole purpose of incorporation in this Circular.

**CCIF****CCIF CPA LIMITED**

20/F Sunning Plaza  
10 Hysan Avenue  
Causeway Bay Hong Kong

8 October 2007

The Directors  
Prime Investments Holdings Limited

Dear Sirs

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the “Unaudited Pro Forma Consolidated Net Tangible Assets”) in Appendix II of the circular dated 8 October 2007 (the “Circular”) of Prime Investments Holdings Limited (the “Company”) in connection with the proposed open offer in the proportion of five Offer Shares for every one Share held on the Record Date (the “Open Offer”). The Unaudited Pro Forma Consolidated Net Tangible Assets has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to the “Group”). The basis of preparation of the Unaudited Pro Forma Consolidated Net Tangible Assets is set out on page 84 of the Circular.

**Respective Responsibilities of Directors of the Company and Reporting Accountant**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Net Tangible Assets in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accountant Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as requires by rule 4.29 (7) of the Listing Rules, on the Unaudited Pro Forma Net Tangible Assets and to report our opinion to you. We do not accept any responsibility for any reports previously given to us on any financial information used in the compilation for the Unaudited Pro Forma Net Tangible Assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted balance sheet of the Group as at 30 June 2006 with the audited financial statements of the Group as at 30 June 2006, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Net Tangible Assets with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Net Tangible Assets has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate to rule 4.29 (1) of the Listing Rules.

The Unaudited Pro Forma Net Tangible Assets is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2006 or any future date.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Net Tangible Assets has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Net Tangible assets as disclosed pursuant to rule 4.29 (1) of the Listing Rules.

Yours faithfully  
**CCIF CPA Limited**  
*Certified Public Accountants*  
Hong Kong

**Leung Chun Wa**  
Practising Certificate Number P04963



**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group and the Subscriber.

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

**SHARE CAPITAL**

<i>Authorised capital:</i>		<i>HK\$</i>
<u>2,000,000,000</u>	Shares of HK\$0.01 each	<u>20,000,000</u>

*Issued and fully paid or credited as fully paid:*

395,151,037	Shares as at the Latest Practicable Date	3,951,510.37
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Upon completion of the Open Offer and the increase in authorised share capital becoming effective

<i>Authorised:</i>		<i>HK\$</i>
<u>30,000,000,000</u>	Offer Shares to be allotted and issued	<u>300,000,000.00</u>

*Issued (and paid up) and to be issued:*

395,151,037	Shares as at the Latest Practicable Date	3,951,510.37
<u>1,975,755,185</u>	Offer Shares to be issued	<u>19,757,551.85</u>
<u>2,370,906,222</u>		<u>23,709,062.22</u>

347,151,037 Shares have been issued since 30 June 2006, being the last financial year end of the Company, up to the Latest Practicable Date.

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

All the Shares in issue and the Offer Shares (when allotted and fully paid) to be issued rank pari passu in all respects with each other including as regards to dividends voting rights and return of capital. The Shares in issue 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.

There is no arrangement under which future dividends are/will be waived or agreed to be waived

## DISCLOSURE OF INTERESTS

### (a) Director's and chief executive's interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives and their associates in the shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company or any of its associated corporations) and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or that was required to be recorded pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name		Capacity and nature of interest	Number of Shares held	Percentage of the Company's issued share capital
Chan Yan Ting Gordon	<i>Note</i>	through a controlled corporation	31,032,857	7.85%

*Note:* Mr. Chan Yan Ting, a non-executive Director, is the sole beneficial owner of Poly Good which holds 31,032,857 Shares, representing approximately 7.85% of the existing entire issued share capital of the Company. Mr. Chan Yan Ting is deemed to be a substantial Shareholder who is interested in the 31,032,857 Shares,

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

### (b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV

of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

<b>Name</b>	<i>Note</i>	<b>Capacity and nature of interest</b>	<b>Number of Shares held</b>	<b>Percentage of the Company's issued share capital</b>
Poly Good	(1)	directly beneficially owned	31,032,857	7.85%
the Underwriter		directly beneficially owned	68,181,818	17.25%
Fung Cheuk Nang Clement		directly beneficially owned	31,818,182	8.05%
Upkeep Properties Ltd	(2)	directly beneficially owned	25,000,000	6.33%

*Notes:*

- (1) The entire issued share capital of Poly Good is beneficially owned by Mr. Chan Yan Ting, a non-executive Director. Mr. Chan, being the sole beneficial owner of Poly Good, is deemed to be a substantial Shareholder who is interested in the 31,032,857 Shares, representing approximately 7.85% of the existing entire issued share capital of the Company.
- (2) The entire shares in Upkeep Properties Ltd. is beneficially owned by Tam Wo Quan. Mr. Tam is deemed to be interested in 25,000,000 Shares.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

### SHAREHOLDINGS AND DEALINGS

As at the Latest Practicable Date, the Underwriter is interested in 68,181,818 Shares representing 17.25% of entire issued share capital of the Company. The 68,181,818 Shares was acquired by the Underwriter pursuant to a subscription agreement dated 20 April 2007. Save for the subscription agreement dated 20 April 2007, the Underwriter did not deal in any shares, options, warrants, convertibles, securities and derivatives in respect of shares of the Company. During the period beginning 6 months prior to the date of the Announcement and up to the Latest Practicable Date, the sole director of the Underwriter, Mr. Duan Chuan Liang, is not interested in any shares, options, warrants, convertibles, securities and derivatives in respect of shares of the Company or has not dealt with any shares, options, warrants, convertibles, securities and derivatives in respect of shares of the Company. Parties acting in concert with the Underwriter

have not owned or controlled any shareholdings of the Company and have not dealt in the shares, options, warrants, convertibles, securities and derivatives in respect of shares of the Company during the period 6 months prior to the date of the Announcement and up to the Latest Practicable Date.

During the period beginning 6 months prior to the date of the Announcement and up to the Latest Practicable Date, there is no irrevocable commitment or arrangements to vote in favour of or against the resolutions in respect of the Open Offer or the Whitewash Waiver between China Water, parties acting in concert with it, the directors of China Water, the Underwriter and parties acting in concert with it or the sole director of the Underwriter and the Company, parties acting in concert with it or the Directors.

During the period beginning 6 months prior to the date of the Announcement and up to the Latest Practicable Date, there is no irrevocable commitment or arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and China Water, parties acting in concert with it, the directors of China Water, the Underwriter and parties acting in concert with it or the sole director of the Underwriter.

During the period beginning 6 months prior to the date of the Announcement and up to the Latest Practicable Date, none of the Company, parties acting in concert with it or the Directors has shareholdings or has dealt in any shares, options, warrants, convertibles, securities and derivatives in respect of shares in the Underwriter or in any shares or any shares, options, warrants, convertibles, securities and derivatives in respect of shares of China Water.

During the period beginning 6 months prior to the date of the Announcement and up to the Latest Practicable Date, no shareholdings in the Company and shareholdings in the Underwriter was owned or controlled by a subsidiary of the Company, by a pension fund of the Company or of a subsidiary of the Company, or by an adviser to the Company as specified in class (2) of the definition of associate.

During the period beginning 6 months prior to the date of the Announcement and up to the Latest Practicable Date, no shareholdings in the Company and shareholdings in the Underwriter was owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate. There is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and the Company or any person who is an associate of the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate, and any other person.

During the period beginning 6 months prior to the date of the Announcement and up to the Latest Practicable Date, no shareholdings in the Company and shareholdings in the Underwriter are managed on a discretionary basis by fund managers connected with the Company.

Save for Mr. Chan Yan Ting, the non-executive Directors who is deemed to have interest in 31,032,857 Shares held by Poly Good, a company wholly owned by Mr. Chan Yan Ting, none of other Director has voting right at the SGM. As Mr. Chan Yan Ting, who is a substantial shareholder and a Director, has to abstain from voting under the Listing Rules, none of the Directors will vote on the Open Offer or the Whitewash Wavier at the SGM.

**DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, save as the service contract of Ms. Wang Wen Xia (an executive Director) commenced from 15 January 2005, up to 14 January 2008 for the monthly fee of HK\$100,000. Pursuant to the service contract, Ms. Wang Wen Xia is entitled to participate in the mandatory provident fund scheme and a bonus and share option scheme to be determined by the Board. As at the Latest Practicable Date, Ms. Wang Wen Xia was not granted any bonus or options. Except as disclosed in this section,

- (a) none of the Directors has entered or proposed to enter into a service contract with the Company or any of its subsidiaries or associated companies which is not determinable by the Company within one year without payment of compensation, other than statutory compensation;
- (b) none of the Directors had entered into or amended any service contracts (including both continuous and fixed term contracts) with the Company or any of its subsidiaries or any of its associated companies within six months before the date of the Announcement;
- (c) none of the Directors had any continuous service contracts with the Company or any of its subsidiaries or associated companies with a notice period of 12 months or more; and
- (d) none of the Directors had any fixed term service contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.

**DIRECTORS' INTEREST IN ASSETS**

None of the Directors had any direct or indirect interest in any assets which have been, since 30 June 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, 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.

**DIRECTORS' INTEREST IN CONTRACT OR ARRANGEMENT**

As at the Latest Practicable Date, there was no benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer and the Whitewash Waiver.

As at the Latest Practicable Date, there is no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Open Offer or otherwise connected with the Open Offer.

Saved for the Underwriting Agreement, there were no contract, agreement or arrangement entered into by the Underwriter or any member of the Group subsisting as at the Latest Practicable Date in which any of the Directors has a material personal interest and which is significant in relation to the business of the Group as a whole.

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or the management Shareholders (as defined in the Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

### **COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

### **LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

### **EXPERTS AND CONSENTS**

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Grand Cathay	the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, a licensed corporation under the SFO licensed to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management), regulated activities under the SFO,
CCIF CPA Limited (“CCIF”)	Certified Public Accountants

Each of Grand Cathay and CCIF has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respective appear.

Each of Grand Cathay and CCIF does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Grand Cathay and CCIF does not have any direct or indirect interests in any assets which have been, since 30 June 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

**MATERIAL CONTRACTS**

The following contracts (not being contract in the ordinary course of business) have been entered into by the Group within the two years immediately preceding the date of the Announcement up to the Latest Practicable Date and are or may be material:

- (1) a deed of waiver made between the Company and Oceanwide Investments Limited an ex-shareholder of the Company on 30 November 2005. Pursuant to which, Oceanwide Investments Limited agreed to waive the debt of HK\$2,765,838 (including the amount of HK\$ 2,734,401 brought forward from 30 June 2005) due by the Company;
- (2) subscription agreement dated 2 November 2005 between the Company and Poly Good. Pursuant to the subscription agreement, a total of 89,142,857 Shares were subscribed by Poly Good at HK\$0.09 per Share for the sum of HK\$8,000,000 in cash. The subscription was completed on 20 June 2007;
- (3) subscription agreement dated 11 January 2007 between the Company and Ms. Wu Bao Liu, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 6,000,000 Shares were subscribed by Ms. Wu Bao Liu at HK\$0.22 per Share for the sum of HK\$1,320,000 in cash;
- (4) subscription agreement dated 20 April 2007 between the Company and Ms. Lei Hio Lai, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 10,100,000 Shares were subscribed by Ms. Lei Hio Lai at HK\$0.22 per Share for the sum of HK\$2,222,000 in cash;
- (5) subscription agreement dated 11 January 2007 between the Company and Mr. Zhang Jian, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 1,000,000 Shares were subscribed by Mr. Zhang Jian at HK\$0.22 per Share for the sum of HK\$220,000 in cash;
- (6) subscription agreement dated 11 January 2007 between the Company and Mr. Sam Zhu, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 4,550,000 Shares were subscribed by Mr. Sam Zhu at HK\$0.22 per Share for the sum of HK\$1,001,000 in cash;
- (7) subscription agreement dated 11 January 2007 between the Company and Ms. Shen Lin, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 910,000 Shares were subscribed by Ms. Shen Lin at HK\$0.22 per Share for the sum of HK\$200,200 in cash;

- (8) subscription agreement dated 11 January 2007 between the Company and Ms. Wu Juan, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 2,980,000 Shares were subscribed by Ms. Wu Juan at HK\$0.22 per Share for the sum of HK\$655,600 in cash;
- (9) subscription agreement dated 20 April 2007 between the Company and GEV (Hong Kong) Limited, who and whose ultimate beneficial owners became substantial Shareholder after the subscription. Pursuant to the subscription agreement, a total of 27,100,000 Shares were subscribed by GEV (Hong Kong) Limited at HK\$0.22 per Share for the sum of HK\$5,962,000 in cash. GEV (Hong Kong) Limited subsequently disposed of part of its shareholding in the Company and it is not a substantial Shareholder as at the Latest Practicable Date;
- (10) subscription agreement dated 20 April 2007 between the Company and Mr. Chen Kang, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 13,636,363 Shares were subscribed by Mr. Chen Kan at HK\$0.22 per Share for the sum of HK\$3,000,000 in cash;
- (11) subscription agreement dated 20 April 2007 between the Company and Mr. Li Xiao Ping, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 4,000,000 Shares were subscribed by Mr. Li Xiao Ping at HK\$0.22 per Share for the sum of HK\$880,000 in cash;
- (12) subscription agreement dated 20 April 2007 between the Company and Ms. Yang Li Fang, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 5,000,000 Shares were subscribed by Ms. Yang Li Fang at HK\$0.22 per Share for the sum of HK\$1,100,000 in cash;
- (13) subscription agreement dated 20 April 2007 between the Company and Mr. Liao Bo, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 4,550,000 Shares were subscribed by Mr. Liao Bo at HK\$0.22 per Share for the sum of HK\$1,001,000 in cash;
- (14) subscription agreement dated 20 April 2007 between the Company and Mr. Liu Qiu Sheng, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 1,363,636 Shares were subscribed by Mr. Liu Qiu Sheng at HK\$0.22 per Share for the sum of HK\$300,000 in cash;
- (15) subscription agreement dated 20 April 2007 between the Company and the Underwriter. Pursuant to the subscription agreement, a total of 68,181,818 Shares were subscribed by the Underwriter at HK\$0.22 per Share for the sum of HK\$15,000,000 in cash;
- (16) subscription agreement dated 20 April 2007 between the Company and Mr. Fung Cheuk Nang, Clement, who became a substantial Shareholder after the subscription. Pursuant to the subscription agreement, a total of 31,818,182 Shares were subscribed by Mr. Fung Cheuk Nang, Clement at HK\$0.22 per Share for the sum of HK\$7,000,000 in cash;



- (17) subscription agreement dated 20 April 2007 between the Company and Upkeep Properties Limited, who and whose ultimate beneficial owner, Mr. Tam Wo Quan, became substantial Shareholder after the Subscription. Pursuant to the subscription agreement, a total of 25,000,000 Shares were subscribed by Upkeep Properties Limited, Clement at HK\$0.22 per Share for the sum of HK\$5,500,000 in cash;
- (18) subscription agreement dated 20 April 2007 between the Company and Mr. You Tao, who became a substantial Shareholder after the subscription. Pursuant to the subscription agreement, a total of 25,909,090 Shares were subscribed by Mr. You Tao at HK\$0.22 per Share for the sum of HK\$5,700,000 in cash. Mr. You Tao subsequently disposed part of his shareholding in the Company and he is not a substantial Shareholder as at the Latest Practicable Date;
- (19) subscription agreement dated 20 April 2007 between the Company and Mr. Liu Wei Tao, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 10,000,000 Shares were subscribed by Mr. Liu Wei Tao at HK\$0.22 per Share for the sum of HK\$2,200,000 in cash;
- (20) subscription agreement dated 20 April 2007 between the Company and Mr. Chen Jian, who is an third party independent of the Company and its connected persons. Pursuant to the subscription agreement, a total of 15,909,091 Shares were subscribed by Mr. Chen Jian at HK\$0.22 per Share for the sum of HK\$3,500,000 in cash; and
- (21) the Underwriting Agreement.

**EXPENSES**

The expenses in connection with the Open Offer, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to amount approximately HK\$1.6 million and are payable by the Company.

**CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER**

Registered Office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head office and principal place of business in Hong Kong	Suite 6305, 63/F Central Plaza 18 Harbour Road Wanchai, Hong Kong

Authorised representatives	Wang Wen Xia Suite 6305, 63/F Conral Plaza 18 Harbour Road Wanchai Hong Kong
	Pong Po Lam 24/F Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Company Secretary	Li Chi Chung, a qualified lawyer in Hong Kong
Qualified accountant	Dr. Chan Po Fun, Peter a certified public accountant
Legal advisers to the Company	<i>As to Hong Kong law:</i> Michael Li & Co 14th Floor, Printing House 6 Duddell Street Central Hong Kong  <i>As to Bermuda law:</i> Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong
Independent Financial Adviser	Grand Cathay Securities (Hong Kong) Limited Rooms 705-6, 7/F ICBC Tower Citibank Plaza 3 Garden Road Central, Hong Kong
Auditors and reporting accounts	CCIF CPA Limited 20/F Sunning Plaza 10 Hyan Avenue Causeway Bay Hong Kong
Underwriter	China Water Investments Limited Suite 6408, 64/F, Central Plaza, 18 Harbour Road Wanchai Hong Kong
Principal share registrar	Butterfield Fund Service (Bermuda) Limited 65 Front Street Hamilton HM12 Bermuda

Hong Kong branch share registrar	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal Banker	The Hongkong and Shanghai Banking Corporation Limited. HSBC International Banking Centre 1 Queen's Road Central Hong Kong

## DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Ms. Wang Wen Xia, Wendy**, aged 46 holds a master degree in finance from Dongbei University of Finance and Economics. Ms. Wang currently holds senior management positions in various unlisted companies incorporated in the People's Republic of China with limited liability but did not hold any position in other listed companies in the last three years prior to her appointment. In particular, Ms. Wang has over 5 years' active experience at the management level in structured finance, investment and asset management services for third party investors in PRC joint venture projects. These projects relate to properties development and her duties in respect of these projects include deciding how to invest the fund for the properties development projects. Ms. Wang's duties include but not limited to decision making and financial data analysis. The then employer of Ms. Wang was a corporation carrying on business of mergers and acquisitions and real property development.

**Mr. Pong Po Lam**, aged 51, has been the Managing Director of Pegasus Fund Managers Limited since 1990. He has worked in the fund management industry for nearly twenty years. He is the Honorary Secretary of The Institute of Financial Planners of Hong Kong, Executive Committee member of The Hong Kong Institute of Financial Analysts and Professional Commentators Ltd, China Sub-committee member of the Hong Kong Investment Funds Association, Chairman of Investment and Fund Management Services of CEPA Business Opportunities Development Alliance, Lecturer of HKU SPACE programme and a regular guest speaker at senior management training courses for several banks and financial/ insurance companies.

Mr. Pong has been the director of 3 ADI-Kallista Funds, namely "Kallista Arbitrage Strategies Fund", "Kallista Credit Arbitrage Fund" and "Kallista CB Arbitrage Fund" since 2000 (which has managed AUM Euro 184 million and USD81.6 million in total as at 31 May 2006). He is the senior advisor to the President of Comgest Group, which has managed AUM Euro 6.3 billion as at June 2006). Mr. Pong also an advisor of asset allocation for Mass Mutual Asia Ltd (2005 onwards) and member of "Business Studies Advisory Board" of HKU SPACE. He is an advisor of Great Wall Fund Management Co Ltd (which is a domestic fund house in China, managed RMB8 billion as at September 2006). He was formerly a Director of Gartmore Fund Managers (Far East) Limited. During the past 15 years, he has been appointed as a director of AGRI-AM SITC, a Securities and Investment Trust Corporation set up in Taiwan as a joint venture with Credit Agricole Group, and received mandates as advisor or trustee for

several funds. He set up a joint-venture company with Lipper, a Wall Street famous company, in 1992 to carry out the fund ratings for Asian funds. Mr. Pong was granted a “World Outstanding Chinese Award” by “World Outstanding Chinese Association” in 2006. He is a graduate of the Chinese University of Hong Kong with a B.Sc. and an EMBA degree. He is also a Certified Financial Planner and a fellow of The Hong Kong Institute of Directors.

**Mr. Wong Kwong Chi, Simon**, aged 55, is the General Partner of Asian Global Capital and also sits on the boards of several listed companies during the last three years, including non-executive director of Hang Fung Gold Technology Limited, independent non-executive director of Fountain Set (Holdings) Limited and independent non-executive director of Glory Mark Hi-Tech (Holdings) Ltd. He has extensive experience in the capital investment market. Mr. Simon Wong holds a Bachelor degree in Science and a Master degree in Business Administration from the Chinese University of Hong Kong. Mr. Simon Wong served as the Chairman of Hong Kong Venture Capital and Private Equity Association, the Vice Chairman of The Hong Kong Electronic Industries Association, and the Vice President of Hong Kong Auto Parts Industry Association. He is now a Member of Financial Services Advisory Committee and an Advisory Committee on the Promotion of Innovation & Technology through the Hong Kong Platform of Hong Kong Trade Development Council, Member of Hong Kong Young Industrialists Council, Committee Member of Federation of Hong Kong Machinery & Metal Industries and Vice President of Hong Kong Critical Components Manufacturers Association.

#### **Non-executive Directors**

**Mr. Lan Ning**, aged 44, graduated with a Beijing International Master of Business Administration degree from Peking University, is former senior director of China Poly Group Corporation, and founder and chairman of Guangzhou Poly Investment Ltd. Mr. Lan has extensive experience in various businesses including international trading, property development, investment, asset management, securities, corporate mergers and domestic and overseas strategic investment. Mr. Lan is also the Executive Director of Goldbond Group Holdings Limited, which is listed on the Main Board of the Hong Kong Stock Exchange.

**Mr. Chan Yan Ting, Gordon**, aged 51, has extensive experience in automobile industry of the PRC, including the manufacture, sale and trading of automotive parts and components worldwide. Mr. Gordon Chan’s businesses cover many regions of the PRC, and his business counterparts include well-known multinational and PRC automobile brands. Mr. Gordon Chan holds many public posts in Hong Kong and the PRC with respect to automobile industry, including but not limited to panel member of Hong Kong Automotive Parts and Components Research and Development Commission of HKSAR Innovation and Technology Commission (香港特區政府創新科技署「香港汽車零部件研究發展中心」委員會), panel member of the PRC Affairs Division of Hong Kong Trade Development Council (香港貿易發展局中國事務委員會), chairman of Automotive Parts and Components Division of Hong Kong Productivity Council (香港生產力促進局－香港汽車零部件工業協會), permanent honor chairman of International Automobile Engineers Institution – Hong Kong (國際汽車工程師學會－香港), deputy chairman of Foreign Investment Commission of Qingyuan, Guangdong Province (廣東省清遠市外商投資企業協會).

**Mr. Ding Xiaobin**, aged 38, has been honored the academic title of economist. He is ever chronologically worked for business enterprises in fields of banking, futures, clothes, import & export and investments. Currently as the managing director of Guangdong Poly Investment Limited, he is mainly in charge of direct investment consultant for projects in lines of clothes sales, harbor operation, agricultural products processing, building materials manufacturing, chemical synthesis and so on, with close cooperative relationship with the domestic banks, not only the 4th biggest state-owned commercial banks, but also state policy banks and stocked banks. Mr. Ding has rich experience in management, merger and acquisition, restructuring.

**Dr. Chan Po Fun, Peter**, *BBS, JP. M.B.E., DS. Ph.D.*, aged 85, a certified public accountant. He was the chairman of The Kowloon Stock Exchange Limited, a member of committee on Takeovers and Mergers of the former Securities Commission and the chairman of the former Hong Kong Federation of Stock Exchanges. He was a registered dealing director under the Securities Ordinance and was a member of the Urban Council for 14 years. Dr. Chan has served on the boards of many public companies in Hong Kong. He is a honorary fellow of the Society for Underwater Technology and is a member of a number of scientific institutions. Dr. Chan has been a member, and the treasurer, of the board of the Chinese Permanent Cemeteries since 1967 and the chairman of its finance committee up to 2005. He is trustee of the S.K. Yee Medical Foundation.

**Mr. Chan Wing Chung**, aged 24, graduated from the University of Edinburgh with a master degree of economics and accounting. Mr. Eric Chan currently works for a private company based in Hong Kong as a marketing executive and is responsible for liaison with clients, following up customers' orders and developing new clients. He is the son of Mr. Gordon Chan.

#### **Independent non-executive Directors**

**Dr. Cheung Wai Bun, Charles**, *JP*, aged 71, is the group chief executive and executive deputy chairman of Mission Hills Group, Hong Kong. He holds an honorary doctor's degree, a master's degree and a bachelor of science degree in business administration. Dr. Cheung has over 30 years experience in the senior management of companies in various industries including over 22 years experience of banking business in senior management position. He is an independent non-executive director and chairman of audit committees of K. Wah International Holdings Limited, Galaxy Entertainment Group Limited, Pioneer Global Group Limited and Shanghai Electric Group Limited (上海電氣集團股份有限公司) which are listed on the Main Board of the Stock Exchange. Dr. Cheung is also a Senior Advisor to the Board of the Metropolitan Bank & Trust Company, Philippines (菲律賓首都銀行). Dr. Cheung was a former director and adviser of the Tung Wah Group of Hospitals and he is a vice chairman of Guangdong Province Golf Association. He was awarded the Directors of the Year Awards 2002 of Listed Company Non-executive Director (2002上市公司傑出非執行董事). Dr. Cheung was re-appointed by the HKSAR Government as a member of the Estate Agents Authority (地產代理監管局) in November 2004.

**Mr. Gu Qiu Rong**, aged 41, the Chinese Certified Public Accountants and the Chinese Certified Tax Agent. Mr. Gu has extensive experience in accounting and corporate finance management. Over the last decade, Mr. Gu engaged in various fields, such as import and export trading, shipping, commercial wholesale, chain operations and investments consultancy and held numerous senior management positions with various corporations. Mr. Gu is currently vice general manager of Guangzhou Cofidelen Science & technology Development Co. Ltd.

**Mr. Zhang Yong**, aged 52, a PH.D, is a young professor and a supervisor of PH.D. students. He has been honored the academic titles of National Expert of Great Contribution, Celebrated Expert of Embryo Engineering, founder of Animal Clone Base of China. Meanwhile he is the founder of the Academic Institute of Biological Engineering of Northwest Sci-Tech University of Agriculture and Forestry and Yangling Keyan Biological Engineering Ltd. As Chairman of Yang Ling Keyuan Clone Science & Technological Company Ltd, Professor Zhang is also title as member of the Technology Committee belonging to National Agriculture Department, invited member of Government's Decision-making Consultation Committee of Shan Xi province, resident syndic of Academic Committee of Agriculture Biology Technology. Professor Zhang is professionally skilled with breeding, marketing and technology information for poultry industry. He is also good at, from microcosmic and macrocosmic point of view, mastering the developing and the stratagem and tactics for hitech poultry corporations.

### **MISCELLANEOUS**

- (a) As at the Latest Practicable Date, there was no benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer and Whitewash Waiver.
- (b) Save for the Underwriting Agreement, there were no contract or agreement entered into by Underwriter or any member of the Group subsisting as at the Latest Practicable Date in which any of the Directors has a material personal interest and which is significant in relation to the business of the Group as a whole.
- (c) This circular and the accompanying form of proxy have been prepared in both English and Chinese. In the case of any discrepancies, the English texts shall prevail over their respective Chinese texts.
- (d) As at the Latest Practicable Date, the sole director of the Underwriter is Mr. Duan Chuan Liang.

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection (i) during normal business hours on any weekday (except for public holidays) at the head office and principal place of business of the Company in Hong Kong at Suite 6305, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, (ii) on the open offer specific website ([www.finance.thestandard.com.hk/en/comp\\_announcement.asp?code=0721](http://www.finance.thestandard.com.hk/en/comp_announcement.asp?code=0721)) and (iii) the website of the SFC ([www.sfc.hk](http://www.sfc.hk)), from the date of this circular 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 years ended 30 June 2004, 2005 and 2006;
- (c) the material contracts as referred to in the paragraph headed "Material contracts" in this appendix;

- (d) service contract of Wang Wen Xia;
- (e) the written consents referred to in the paragraph headed “Qualifications and consents of experts” in this appendix;
- (f) the letter from CCIF in respect of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on page 85 to 86 of this circular;
- (g) the letter from the Independent Board Committee, the text of which is set out on page 29 of this circular;
- (h) the letter of advice from Grand Cathay, the text of which is set out on pages 30 to 43 of this circular; and
- (i) a copy of each of the circulars issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules which have been issued by the Company since 30 June 2006 (the date to which the latest published audited consolidated financial statements of the Group were made up).

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## NOTICE OF SGM

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### PRIME INVESTMENTS HOLDINGS LIMITED

*(incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

(Stock Code: 721)

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “**SGM**”) of Prime Investments Holdings Limited (the “**Company**”) will be held at 11:00 a.m. on Friday, 26 October 2007 at Suite 6305, 63/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT**
  - (i) an increase in its authorised share capital from HK\$20,000,000 divided into 2,000,000,000 Shares to HK\$300,000,000 divided into 30,000,000,000 Shares by creating an additional 28,000,000,000 unissued Shares (the “**Proposed Increase in Authorised Share Capital**”); and
  - (ii) any one or more of the Directors be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Proposed Increase in Authorised Share Capital.”
2. “**THAT** subject to the fulfillment of the conditions, including the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Offer Shares (as defined below) in their fully paid forms to be allotted and issued to the shareholders of the Company (the “**Shareholders**”) pursuant to the terms and conditions of the Open Offer (as defined below), as set out in the underwriting agreement (the “**Underwriting Agreement**” including, if any, all supplemental agreements relating thereto, a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification) dated 29 August 2007 and entered into among the Company and China Water Investments Limited (the “**Underwriter**”) and the Underwriting Agreement not being terminated in accordance with the terms thereof prior to 4:00 p.m. on the third business day after the last day for acceptance of Offer Shares (as defined below),



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## NOTICE OF SGM

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- (i) the issue by way of open offer (the “**Open Offer**”) of 1,975,755,185 Shares (the “**Offer Shares**”) to the Shareholders whose names appear on the register of members of the Company on 26 October 2007 (excluding those Shareholders (the “**Prohibited Shareholders**”) with registered addresses as shown in the register of members of the Company on the date are outside Hong Kong whom the board of Directors consider it necessary or expedient to exclude after making the relevant enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place where those Prohibited Shareholders reside) on the basis of five Offer Shares for every one Share then held and otherwise pursuant to and in accordance with the terms and conditions set out in the circular dated 8 October 2007, a copy of which has been produced to the Meeting marked “B” and signed by the chairman of the SGM for the purpose of identification) despatched by the Company to the Shareholders be and is hereby approved;
  - (ii) the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements or Prohibited Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company;
  - (iii) the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the arrangements for taking up of the unsubscribed Offer Shares, if any, by the Underwriter) be and are hereby approved, confirmed and ratified;
  - (iv) the absence of arrangements for application for the Offer Shares by the Shareholders in excess of their entitlements under the Open Offer as referred to in Rule 7.26A of the Rules Governing the Listing of Securities on the Stock Exchange be and the same is hereby approved, confirmed and ratified; and
  - (v) the Directors be and are hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer or as they consider necessary, desirable or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder.”
3. “**THAT** subject to the passing of the ordinary resolution numbered 2 set out above, the terms of the application for a waiver granted or to be granted by the Securities and Futures Commission of Hong Kong to China Water Investments Limited together with parties acting in concert with it pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the waiver of the obligation of the Underwriter and parties acting in concert with it to make a mandatory offer for all the Shares not already owned or agreed to be acquired by them (the “**Whitewash Waiver**”) be and is hereby approved and that the Directors be and are hereby authorised to do all things

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## NOTICE OF SGM

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and acts and sign all documents which they consider desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Whitewash Waiver.”

By the order of the board  
**Prime Investments Holdings Limited**  
**Wang Wen Xia**  
*Executive Director/CEO*

Hong Kong, 8 October 2007

*Registered office*  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal place of business in Hong Kong:*  
Suite 6305, 63/F  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the SGM is enclosed with the circular of the Company dated 8 October 2007. Whether or not you intend to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.