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**WEB PROOF INFORMATION PACK of**



**CHINA HIGH PRECISION AUTOMATION GROUP LIMITED**

**中國高精密自動化集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

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## SUMMARY

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### OVERVIEW

The Group is one of the market leaders in the high precision industrial automation instrument and technology products industry in China and operates under the Wide Plus brand. The Group is principally engaged in the research and development, manufacturing and sale of high precision industrial automation instrument and technology products, targeting the middle to high-end segments of the industrial automation instruments markets. The Group’s high precision industrial automation instrument and technology products can be used to detect, measure and analyse information (such as temperature, water pressure, or other variables) and are widely used in industrial production applications. During the financial year ended 30 June 2009, the Group’s sales of high precision industrial automation instruments accounted for approximately [74.6]% of its total sales.

The Group’s key high precision industrial automation instrument and technology products include:

- Detector (檢測儀錶) — an instrument that detects and assesses pressure, temperature, flow and liquid level by converting information received into data that can be transmitted and analysed;
- Indicator (顯示儀錶) — an instrument that indicates the status of a production processes either by a set of numbers or by other signals after receiving and analysing data transmitted to it; and
- Controller (控制調節儀錶) — an instrument, such as a valve, that can change the flow of gas or liquid, pressure and liquid levels upon input from a control system.

In addition to the Group’s high precision industrial automation instrument and technology products business, the Group is also engaged in the manufacturing of horological instrument products for use in the manufacture of quartz watches. During the financial year ended 30 June 2009, the Group’s sales of horological instruments accounted for approximately [25.4]% of its total sales.

The Group’s key horological instrument products include:

- Two-hand all plastic quartz watch movements — [a quartz watch movement that controls the hour and minute hands of the watch];
- Three-hand all plastic quartz watch movements — [a quartz watch movement that controls the hour, minute and second hands of the watch];
- Calendar all plastic quartz watch movements — [a quartz watch movement that controls the day and date displays of the watch].

The pressure transmitter sector, which forms part of the Group’s detector product category, of the high precision industrial automation instruments market and the quartz watch movements market in which the Group competes are both oligopoly markets as, by definition, an oligopoly is defined as a market in which a few competitors dominate, and quantitatively where the four largest firms have market shares of greater than 40%. The Group’s pressure transmitter and quartz watch

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movements are clear oligopolies as top 4 players have more than 40% market shares. It also has high entry barriers and suppliers have strong price setting powers characteristic of oligopoly markets.

The indicator and controller sector of the high precision industrial automation instruments market in which the Group competes may be considered as both an oligopoly and as a monopolistic competitive market as this sector shares characteristics of both markets. This sector has a larger number of leading competitors than normally seen in oligopoly markets, which is more typical of monopolistic competitive markets. Additionally, where monopolistic competitive markets tend to have no or low entry barriers, this sector retains the high entry barriers and supplier price setting powers characteristics of oligopoly markets.

<b>The PRC Instrument Industry Production Value in 2007</b>	<i>(RMB millions)</i>
Industrial automation instruments	78,384
Horological Instruments	20,911
Electronic chain instruments	12,571
Supply chain instruments	39,266
Optics instruments	51,905
Medical and related instruments	20,883
Vehicle and other measuring instruments	14,230
Others	<u>69,615</u>
<b>TOTAL</b>	<b><u><u>307,765</u></u></b>

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008.

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According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, the Group was the leading indicator and controller manufacturer and the leading PRC-based pressure transmitter manufacturer in China in terms of the number of units sold in 2006. With the exception of limited involvements by some domestic enterprises, the middle to high-end segments of the PRC market with high stability, reliability and precision requirements is oligopolistic in nature and almost exclusively reliant on imports or products manufactured by foreign invested enterprises (三資企業) such as the Group, with a relatively limited number of international brands commanding dominant market positions.

### Market Share of Major Pressure Transmitter Manufacturers in 2006

	Market (units)	Enterprise Type
1. Emerson	145,000	Joint Venture
2. Yokogawa	120,000	Joint Venture
3. <b>The Group</b> <sup>(Note 1)</sup>	<b>45,000</b>	<b>Hong Kong</b>
4. Chongqing Wecan	38,000	China
5. E + H	30,000	Joint Venture
6. Others	<u>182,000</u>	
Total	<u><u>560,000</u></u>	

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008.

Note 1: The above ranking is attributed to Wide Plus.

### Market Share of Major Indicator and Controller Manufacturers in 2006

	Market (’000 units/ sets)	Enterprise Type
1. <b>The Group</b> <sup>(Note 1)</sup>	<b>300</b>	<b>Hong Kong</b>
2. RKC	150	Japan
3. OMRON	120	Japan
4. Xiamen Yudian Automation Technology Co., Ltd	80	China
4. Fujian Shunchang Hongrun Precision Instrument Co., Ltd	80	China
4. Sichuan Instrument Complex Co., Ltd. Control Meter Branch	80	China
5. Autonics Electronic (Jiaying) Corporation	50	South Korea
6. Shimaden	30	Japan
6. Shanghai Dahua Chino Instrument Co., Ltd.	30	Joint Venture
7. Others	2,200–2,700	
Total	3,000–3,500	

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

Note 1: The above rankings are attributed to Wide Plus.

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### End-users Product Selection Priorities

Selection Criteria	Priority
Stability	1
Failure rate	2
Ease of installation	3
After-sales services	4
Degree of Precision	5
Ease of use	6
Delivery time	7
Price	8

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

The global quartz watch movements market is an oligopoly market dominated by Seiko and Citizen, and to a lesser extent, the Group and two other leading PRC manufacturers. According to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009, the Group is one of the three industry leaders amongst only [10] PRC quartz watch movement manufacturers and the only enterprise which is leading industry innovations in China with products that are of international quality standards. The Group sold approximately 95.8 million pieces of quartz watch movements in 2008, representing approximately 10.6% to 11.9% of total globally output and approximately [23.9]% of total output by the PRC manufacturers.

According to the National Standard of the Classifications and Codes of National Economy Industries (GB/T4754-2002) (《國民經濟行業分類》國家標準 (GB/T4754-2002)), industrial automation instruments and horological instruments and timers are both classified in the instruments industry (儀器儀錶行業). According to the PRC Instruments Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, automation instruments and systems account for about half of the total instrument industry sales revenue.

The production of high precision industrial automation instrument and technology products is the principal business of the Group, from which it derived approximately 64.1%, [70.9]% and [74.6]% of its turnover during the Track Record Period.

High precision industrial automation instrument and technology products manufactured by the Group for the middle to high-end market segments have been applied in an extensive range of industries that utilise automated production processes, including aerospace, oil and gas, petrochemical, power generation, mining and metallurgy, iron and steel, automotive, food and beverage, pharmaceutical, papermaking and machinery industries.

The Group uses distributors to sell the Group's high precision industrial automation instrument and technology products across the PRC through a network of sub-distributors to end-users. Therefore, the Group does not have to bear directly a portion of the costs and personnel needed to warehouse, sell and deliver its products. Under the distributorship system, the Group's products can be marketed to a broader range of customers and the Group can economically serve with its own direct sales force.

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**SUMMARY**

The distributors of the high precision industrial automation instrument and technology products for the Group are its only direct customers, and each distributor has entered into a distributorship agreement with the Group. The Group does not enter into any contractual relationship with any sub-distributors nor sell to any end-users directly.

To the best knowledge of the Directors, the distributors and sub-distributors of the high precision industrial automation instrument and technology products are Independent Third Parties.

The Group has business relationships ranging from 2 to [5] years with its distributors for high precision industrial automation instrument and technology products.

The following map shows the geographical distribution of the Group’s distributors and sub-distributors in China as at the [Latest Practicable Date]:



Sales region	Number of distributor	Number of sub-distributor
Anhui	—	1
Beijing	1	9
Chongqing	1	5
Fujian	1	14
Gansu	—	6
Guangdong	1	25
Guangxi	1	3
Hebei	—	13
Hubei	1	34
Heilongjiang	—	9
Henan	2 <i>Note(1)</i>	12
Hunan	—	6
Inner Mongolia	—	2
Jiangsu	1	16
Jiangxi	—	8
Jilin	1	9
Liaoning	—	17
Ningxia	—	1
Shaanxi	1	32
Shanxi	1	2
Shandong	—	26
Shanghai	1	39
Sichuan	1	11
Tianjin	1	6
Xinjiang	1	12
Yunnan	—	3
Zhejiang	—	12
<b>Total</b>	<b>16</b>	<b>333</b>

*Note (1):* There are 2 distributors in Henan province. One of them is responsible for the distribution of the high precision industrial automation instrument and technology products in Henan province and Shandong province of the PRC. The other distributor is responsible for distribution of the high precision industrial automation instrument and technology products in Henan province and Anhui province of the PRC. Both distributors have met the Group’s requirements to act as distributors of the Group and they have demonstrated that they have networks in provinces of Henan, Anhui and Shandong. According to the distributorship agreements entered into between each of the distributors in Henan province and the Group, in case of any dispute between the distributors in terms of their business concerned, the Group has the right to determine the scope of business of each of the distributors and the distributors are obliged to follow the decision of the Group, including the pricing policy laid down by the Group.

The Group places great emphasis on its research, design and development capabilities, as it is only through the innovation of technologically advanced products that the Group will be able to maintain its market position amongst the leading manufacturers of high precision industrial automation instrument and technology products.



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[As at the Latest Practicable Date], the research and development department of the Group has more than [90] staff of which [33] are experts, most of whom are equipped with undergraduate or higher education degrees in relevant fields ranging from mechanical engineering, instrument manufacturing, automatic controlling, microelectronic and information engineering, computer technology, radio equipment, materials and technique, machines, electric and machinery.

With the research and development assistance and support from various colleges and universities, four cooperative projects are in place, including cooperations with Fuzhou University (福州大學), Tianjin University (天津大學), South China University of Technology (華南理工大學) and Institute of Chief Manufacturing Engineering and Design of the Chinese People’s Liberation Army (中國人民解放軍總裝備工程設計研究總院).

Currently, the Group has 11 trademarks, 31 patents (including 10 design patents and 21 utility model patents) and 4 software copyrights registered in the PRC. As confirmed by the PRC legal advisers of the Group, according to relevant laws and regulations in the PRC, design patents are referred to the design of the shape and colour applied to an industrial product. The utility model patents are referred to the manufacturing method and structure and usage of the products concerned. All the design patents and utility model patents are internally developed by the Group.

According to Opinions of the State Council on Accelerating the Invigoration of Capital Goods and Equipment Industry (“State Council Opinions”) dated 13 February 2006 (國務院關於加快振興裝備製造業的若干意見), the strong invigoration of the capital goods and equipments industry is an important directive for the Chinese government. The capital goods and equipments industry, which industrial automation instruments is included, are deemed a pillar industry that is crucial towards the developments of the overall Chinese economy and national defense infrastructure.

The State Council Opinion also made the following recommendations:

1. Use major national projects as a foundation and basis for promoting the growth of domestic capital goods and equipment enterprises;
2. Strengthen policy supports and encourage governments at all levels to enhance supports for educational institutions and initiatives to help develop and foster the necessary talent pool and foster closer collaborations with enterprises;
3. Revise tax policies when appropriate, including import tax exemptions or rebates for key components and materials used by domestic enterprises for the production of capital goods and equipments and cancellation or gradual cancellation of tax exempt status for imported finished capital goods and equipments; and
4. Encourage procurements of domestically produced capital goods and equipments, using preferential procurement policies for domestically produced products in major national projects as showcase for domestic enterprises.

The Group’s horological instrument segment accounted for approximately 35.9%, [29.1]% and [25.4]% of its turnover during the Track Record Period and the Group had developed the WP1015, P68, P69, P79 and WP1013 horological instrument series. The use of all plastic parts and components in quartz watch movement allows the Group to mass produce parts and components such as die-cast wheel using automated manufacturing processes. This effectively ended the reliance on Japanese horological instruments imported by timepiece manufacturers in

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the PRC and led the way for the Group to sell its horological instruments in the international market. Quartz watch movement products manufactured by the Group are sold to both domestic and international timepiece manufacturers.

The Group uses distributors to sell its horological instrument products across the PRC through a network of distributors to customers. The Group does not have to bear the costs and personnel needed to warehouse, sell and deliver its products. Under the distributorship system, the Group’s products can be marketed to a broader range of customers and the Group can economically serve with its own direct sales force.

The Group has business relationships ranging from [2] to [5] years with its distributors for horological instruments.

During the Track Record Period, the Group also sold its quartz watch movements to potential distributors with whom the Group had no formal distributorship agreements. The Group conducts business with these potential distributors on a transaction-to-transaction basis. According to the Directors, the distributors and potential distributors are Independent Third Parties.

Set out below is the number of horological instruments distributors who have entered into formal distributorship agreements with the Group during the Track Record Period:

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Number of distributors	4	[5]	[4]

The Directors believe that the growth of the Group can be attributable to:

- (i) market leadership;
- (ii) strong revenue growth and profitability over the Track Record Period;
- (iii) advanced technological know-how and use of mechatronic technology and high precision mechanical production;
- (iv) diversified product portfolio with wide application base across multiple industries;
- (v) experienced management and precision mechanical production teams;
- (vi) end-user base for its high precision industrial automation instrument and technology products consisting of well-known companies; and
- (vii) established sales and distribution network.

During 1990’s, the predecessors of the Group were primarily engaged in the manufacturing of quartz watch movements and related components and consumer horological instruments, as well as the research and development of industrial automation instruments including electronic display and control instruments and associated control system and software. Since early 2000’s, the predecessors of the Group focused on the production of industrial automation instruments and horological instruments. Leveraging on the Group’s experience and expertise in high precision

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mechanical production and integration of such technology with microelectrical technology, the Group began the large scale manufacturing of middle to high-end industrial automation instruments and technology products in 2004.

### SUMMARY FINANCIAL INFORMATION

The Group has achieved steady and stable growth in sales during the Track Record Period. For each of the years in the three financial years ended 30 June 2009, the Group recorded revenue of approximately RMB479.3 million, RMB600.9 million and RMB[620.0] million, respectively, representing a CAGR of approximately [13.73]%.

The following is a summary of the Group’s consolidated financial results for each of years in the three financial years ended 30 June 2009 extracted from the Accountants’ Report set out in Appendix I to this document. The results were prepared on the basis of the presentation as set out in the Accountants’ Report.

#### Consolidated Income Statement Data

	Year ended 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Turnover</b>	479,251	600,904	[620,003]
Cost of sales	<u>(257,209)</u>	<u>(317,930)</u>	<u>[323,762]</u>
<b>Gross profit</b>	222,042	282,974	[296,241]
Other revenue	1,950	1,425	[1,436]
Other expenses	(5,780)	(9,702)	[—]
Other net (losses)/gain	(110)	(3,112)	[63]
Distribution costs	(3,075)	(3,972)	[[3,833]
Administrative expenses	<u>(12,778)</u>	<u>(25,681)</u>	<u>[(45,341)]</u>
<b>Profit from operations</b>	202,249	241,932	[248,566]
Finance costs	<u>(2,030)</u>	<u>(2,935)</u>	<u>[(5,775)]</u>
<b>Profit before taxation</b>	200,219	238,997	[242,791]
Income tax	<u>(15,574)</u>	<u>(26,925)</u>	<u>[(42,834)]</u>
<b>Profit for the year</b>	<u>184,645</u>	<u>212,072</u>	<u>[199,957]</u>
Dividend declared and paid during the year	<u>280,864</u>	<u>—</u>	<u>[230,326]</u>
Earnings per share (cents)			
— basic	24.62	28.28	[26.66]
— diluted	<u>24.62</u>	<u>[28.15]</u>	<u>[26.66]</u>

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The following table shows the breakdown of the Group’s turnover by product category for each of the three financial years ended 30 June 2009:

	Year ended 30 June					
	2007		2008		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
High precision industrial automation instrument and technology products	307,351	64.1	426,115	70.9	[462,425]	[74.6]
Horological instruments	<u>171,900</u>	<u>35.9</u>	<u>174,789</u>	<u>29.1</u>	<u>[157,578]</u>	<u>[25.4]</u>
<b>TOTAL</b>	<b><u>479,251</u></b>	<b><u>100</u></b>	<b><u>600,904</u></b>	<b><u>100</u></b>	<b><u>[620,003]</u></b>	<b><u>100</u></b>

The following table shows the breakdown of the Group’s turnover by geographical location for each of the three financial years ended 30 June 2009:

	Year ended 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC (excluding Hong Kong)	415,712	519,657	557,493
Hong Kong	<u>63,639</u>	<u>81,247</u>	<u>62,510</u>
<b>TOTAL</b>	<b><u>479,351</u></b>	<b><u>600,904</u></b>	<b><u>620,003</u></b>

During the Track Record Period, the turnover from high precision industrial automation instrument and technology products was approximately RMB[462.4] million in 2009 compared to approximately RMB[307.4] million in 2007, the increase was mainly attributable to strong overall growth in the PRC instrument industry. The decrease in turnover from horological instruments was mainly attributable to fierce market competition resulting in declining average selling prices of horological instrument products.

High precision industrial automation instrument and technology products on average also enjoy higher profit margins compared to horological instrument products, the Group therefore increased resources and efforts towards the development of its high precision industrial automation instrument and technology products business segment.

### FUTURE PLAN AND STRATEGY

The Group plans to become a leading supplier of a comprehensive range of industrial automation products and horological instruments in the PRC. The Group plans to carry out the following strategies:

- Expand and enhance the Group’s product range to cover a wider variety of high quality, higher-margin products;
- Expansion of regional technical services centres and professional services centres;
- Continue to invest in research, design and development capabilities and strengthen the Group’s technological and manufacturing capabilities; and
- Pursue strategic acquisitions and investments where appropriate.

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### DIVIDEND POLICY

During the Track Record Period, the Group declared and paid dividends of approximately RMB280.9 million, RMB nil and RMB230.3 million, respectively. Such dividends were paid in cash and out of the distributable profits of the Company. The Directors consider that the dividend payments made during the Track Record Period are not indicative of future dividend policy of the Group.

The Company may distribute dividends by way of cash or by other means that it considers appropriate. A decision to distribute any dividend would require the approval of the Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders’ approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including the Group’s results of operations, financial condition, payments by its subsidiaries of cash dividends to the Company, future prospects and other factors that the Directors may consider important.

The Company did not declare or pay any dividend for the financial year ended 30 June 2008, and will declare and pay dividend in an amount of no less than [●]% of the Company’s net profit for the year commencing on or after 1 July 2009.

### THE RECENT FINANCIAL CRISIS AND CREDIT CRUNCH

Starting from September 2008, various leading financial institutions in the U.S. have declared bankruptcy or sought emergency financial supports from the U.S. government and this led to a series of financial crisis, which were allegedly induced by high default rates on sub-prime mortgages relating to real estate beginning in 2005 and 2006. The sub-prime mortgages crisis, which involves the failure of mortgage companies, investment firms, banks and government sponsored enterprises that invested heavily in sub-prime mortgage, is ongoing and has resulted in the global credit crunch. The unexpected and sudden reduction in the availability of loans and increase in the interest rates affect not only the banking and financial sectors, but also the commercial sector relying on the availability of banking facilities. Moreover, it caused significant downturn in the stock markets both in the U.S. and worldwide. The overall effect of the financial crisis is expected to slow the economy growth of the PRC. [Since the beginning of the financial crisis, the Directors have closely reviewed the macro-economic environment.]

With regard to source of funding of the Group, in addition to the financial resources generated from business activities of the Group, the Group also had banking borrowings from commercial banks amounted to approximately RMB[79.0] million as at [30 June] 2009. [As at the Latest Practicable Date], the Group had not received any notification from principal bankers of the Group that the principal banks have any intention of substantially reducing or terminating any part of the Group’s available banking facilities.

In light of the foregoing, the Directors consider that performance of the Group in the near future will not be severely jeopardised by the current weak economic sentiment. The future plans and the proposed use of the net proceeds from the [●], as set forth in the section headed “Business — Future Plan and Strategy”, will continue to be implemented as scheduled.

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## SUMMARY

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### RISK FACTORS

The Directors believe that there are certain risks involved in the Group’s operations. They can be categorised as (i) risks relating to the Group, (ii) risks relating to the industrial automation instrument industry; (iii) risks relating to the horological instrument industry, (iv) risks relating to the PRC, and (v) risks relating to the [●].

These risks are summarised below. For a fuller description, please refer to the section headed “Risk Factors” in this document.

#### Risks Relating to the Group

- The Group may encounter unexpected difficulties when expanding its business in the future.
- The construction and installation of the Group’s new production facilities may not be completed within the time frame or at the cost levels originally anticipated and, as a result, it may not be able to implement its future plans for expansion.
- The Group is dependent upon a small number of key suppliers from whom it purchases a significant majority of its raw materials.
- The Group is dependent upon timely delivery by its suppliers of certain parts, components and services that meet quality standards set by the Group to manufacture its products.
- The Group is heavily dependent on its key executives and personnel, hiring and retaining a highly qualified workforce.
- The Group’s operating results may fluctuate.
- The Group does not have land use right certificate for a parcel of land in the PRC.
- The Group used not to make contributions to the housing fund.
- The Group used not to obtain medical insurance coverage under the social insurance schemes for its employees.
- The Group may be adversely affected by the recent financial crisis and credit crunch.
- The Group is exposed to credit risks of its distributors.
- Any significant downtime in the Group’s production facilities would adversely affect the Group’s business.
- The Group has limited insurance coverage.
- The Group’s manufacturing processes involve inherent risks and occupational hazards.
- Power shortages or substantial increase in energy costs could have an adverse impact on the Group’s operations.

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## SUMMARY

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### Risks Relating to the Industrial Automation Instrument Industry

- General economic growth in the PRC is a key driver of the Group’s business and financial results, in particular with regard to demand for its high precision industrial automation instrument and technology products. If economic growth in the PRC were to slow or stop in the future due to decrease of the PRC domestic demand or global financial crisis, the Group’s business, turnover and profitability may be harmed.
- If international or Chinese competitors in the Group’s high precision industrial automation instrument and technology products business were in the future to begin to manufacture and sell products in their unique niche in the Chinese market, the Group’s business and profitability may be harmed.
- Demand for and supply of the Group’s high precision industrial automation instrument and technology products may be adversely affected by numerous factors, some of which the Group cannot predict or control, which could adversely affect its results of operations.
- The raw materials used in the Group’s production processes and by its suppliers of component parts are subject to price and supply fluctuations that could increase the Group’s costs of sales and adversely affect the Group’s results of operations.
- If the Group is not able to pass onto its customers for its high precision industrial automation instrument and technology products any future increases in the costs of the raw materials used in the manufacture thereof, the Group’s profitability and profit margins may be harmed.
- Annual turnover derived from sales to the Group’s five largest customers for its high precision industrial automation instrument and technology products represented approximately 58.1%, [37.7]% and [33.7]% of the Group’s total turnover derived from sales of its high precision industrial automation instrument and technology products during the Track Record Period. If the Group is unable to maintain or increase its sales to the foresaid customers, its business and financial results may be harmed.
- The Group is dependent on the distributors of its high precision industrial automation instrument and technology products and has limited control over their subsequent re-sales to sub-distributors and end-users.
- Rapid changes in the industrial automation instrument industry may render the Group’s industrial automation instrument products obsolete.
- The market in China for high precision industrial automation instrument and technology products has historically been dominated by foreign companies, some of whom have similar or larger market shares and may have more substantial financial and other resources than the Group.
- Some of the Group’s end-markets are cyclical, which may cause it to experience fluctuations in turnover or operating results.
- If the Group fails to manufacture and deliver high quality products, it may lose customers.
- The costs of complying with existing or future environmental regulations, and rectifying any violations of these regulations could increase the Group’s expenses or reduce its profitability.

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## SUMMARY

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- The costs of complying with existing or future governmental regulations on importing and exporting practices and of rectifying any violations of these regulations, could increase the Group’s expenses, reduce its revenues or reduce its profitability.
- The Group’s future research, design and development activities may not yield the expected benefits.
- The Group may be subject to product liability claims.

### **Risks Relating to the Horological Instrument Industry**

- If average selling prices of the Group’s plastic quartz watch movements continue to decline, the Group’s profitability may be harmed.
- If the Group is unable to negotiate with certain of its suppliers related to its horological instrument business to continue to lower their prices, the Group’s future profitability may be harmed if its average selling prices continue to decrease.
- Sales to the Group’s five largest customers of horological instruments in aggregate represented approximately 89.6%, [86.9]% and [96.3]% of the Group’s total sales of horological instruments during the Track Record Period. If the Group is unable to maintain or increase its sales to the foresaid customers, its business and financial results may be harmed.
- The Group is dependent on the distributors of its horological instruments and has limited control over its subsequent re-sales to watch manufacturers.
- The Group’s primary competitors in its horological instrument business may have a number of competitive advantages over the Group.
- Economic conditions and other factors beyond the Group’s control could have a material adverse effect on the Group’s sales, profitability and results of operations.
- The Group makes commitments regarding the level of business it still seeks and accepts, including production schedules and personnel levels, any significant order cancellations, reductions, or delays by its customers could materially and adversely affect its business.
- The prices of the Group’s horological instruments are subject to periodic volatility, which could have a negative impact on the Group’s sales and profit margins on that business line.
- The Group’s horological instruments may be found to be defective and, as a result, warranty and/or product liability claims may be asserted against the Group which could have a material adverse effect on its quartz watch movement business.

### **Risks Relating to the PRC**

- Adverse changes in China’s economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China’s overall economic growth, which in turn, may materially and adversely affect the Group’s business, financial condition and results of operations.



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## SUMMARY

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- Inflation in the PRC may negatively affect the Group’s profitability and growth.
- A downturn in the economy of the PRC may slow down the Group’s growth and profitability.
- Compliance with more stringent environmental and workplace safety regulations may adversely affect the business operations of the Group.
- The Group’s operating costs may increase due to provision of staff benefits as required by the PRC government.
- Changes in the PRC government policy in relation to capital expenditures or other investment in the industries in which the Group’s customers operate may adversely affect the Group’s business operations.
- The Group’s operations may be adversely affected by any unexpected interruptions in its production process.
- The Company is a holding company that heavily relies on dividend payments from its subsidiaries for funding.
- The Group may not be able to adequately protect its intellectual properties, which may adversely affect the business operations of the Group.
- Government control in currency conversion and future movements in foreign exchange rates may adversely affect the Group’s financial condition, results of operations, and ability to remit dividends.
- The Group currently faces foreign currency exchange risk.
- The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to the Group.
- Payment of dividends by the Group is subject to restrictions under the applicable PRC law.
- Withholding tax on dividend income received from the PRC subsidiary of the Group.
- The Group may not be able to continue to enjoy its current preferential tax treatment.
- It may be difficult to effect service of process on, or to enforce judgments against, the Directors or the Company’s senior management who reside in the PRC in connection with disputes brought in courts outside the PRC.
- Acts of God, acts of war and epidemics which are beyond the Group’s control may cause damage, loss or disruption to the Group’s business.
- Dividends on the Shares may be subject to PRC income taxes

**Amongst the above risk factors, attention of investors is particularly drawn to the risk factor entitled “The Group may be adversely affected by the recent financial crisis and credit crunch” which sets forth the likely impact on the Group’s business operations as a result of the recent financial crisis and credit crunch.**

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed “Glossary of Technical Terms”.*

<b>“Articles of Association” or “Articles”</b>	the articles of association of the Company [conditionally] adopted on [●] 2009 and as amended from time to time
<b>“associate(s)”</b>	has the meaning ascribed thereto in the Listing Rules
<b>“Board”</b>	the board of Directors
<b>“Business Day”</b>	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
<b>“CAGR”</b>	acronym for compound annual growth rate
<b>“Capitalisation Issue”</b>	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to under the paragraph “Further information about the Company — Written resolutions of all Shareholders passed on [●] 2009” in Appendix VI to this document
<b>“Class A Shares”</b>	ordinary share(s) in the share capital of the Company, with a nominal value of HK\$0.10 each
<b>“Class B Shares”</b>	ordinary share(s) in the share capital of the Company, with a nominal value of HK\$0.001 each
<b>“Companies Law”</b>	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
<b>“Companies Ordinance”</b>	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong as amended, supplemented or otherwise modified from time to time
<b>“Company”</b>	China High Precision Automation Group Limited (中國高精密自動化集團有限公司), a limited liability company incorporated in the Cayman Islands on 29 November 2007
<b>“Controlling Shareholder”</b>	has the meaning set out in the Listing Rules and for the purposes of this document, means Mr. Wong, who is entitled to control, directly or indirectly the exercise of more than 30% of the voting rights of the issued share capital of the Company immediately after completion of the Capitalisation Issue and the [●]
<b>“Connected Person(s)”</b>	has the meaning ascribed thereto under the Listing Rules
<b>“Directors”</b>	the directors of the Company

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## DEFINITIONS

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<b>“Existing Shareholders”</b>	Mr. Wong, Mr. Wong Sun Hoi, Mr. Ng Hiu King, Investidea Investments Limited, Sunny Zone Limited and Sea Princess International Investments Limited
<b>“Fortune Plus”</b>	[Fortune Plus Holdings Limited, a company incorporated in the British Virgin Islands on 11 June 2009 and owned as to [66.6]% by Mr. Wong, [10.99]% by Mr. Wong Sun Hoi, [7.55]% by Mr. Ng Hiu King, [7.73]% by Investidea Investments Limited and [7.13]% by Sea Princess International Investments Limited]
<b>“Fujian Electronic”</b>	Fujian Wide Plus Electronic Co., Ltd. (previously known as Fujian New Tower Electronic Co., Ltd.), a sino-foreign equity joint venture enterprise established in the PRC on 25 October 1991 ceased to be part of the Group since August 2007
<b>“Fujian Wide Plus”</b>	Fujian Wide Plus Precision Instruments Co., Ltd., a wholly foreign-owned enterprise with limited liability established in the PRC on 13 January 2003, which is an indirect wholly-owned principal operating subsidiary of the Company
<b>“Fuzhou Shanglun”</b>	Fuzhou Shanglun Precision Instrument Co., Ltd., a wholly foreign-owned enterprise with limited liability established in the PRC on 2 July 1991 ceased to be part of the Group since August 2007
<b>“GDP”</b>	gross domestic product
<b>“Group”</b>	the Company and its subsidiaries and, in respect of the period before the Company became the holding company of its present subsidiaries, the Company’s present subsidiaries or entities which carried on the business at the relevant time or (as the case may be) their predecessors
<b>“HKFRSs”</b>	the Hong Kong Financial Reporting Standards (HKFRSs), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA)
<b>“HKSCC Nominees”</b>	HKSCC Nominees Limited
<b>“Hong Kong” or “HK”</b>	the Hong Kong Special Administrative Region of the PRC
<b>“Hong Kong dollars” or “HK dollars” or “HK\$” and “cents”</b>	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
<b>“Independent Third Party(ies)”</b>	persons who, so far as the Directors are aware after having made all reasonable enquiries, are not connected persons of the Company within the meaning of the Listing Rules

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## DEFINITIONS

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“LIBOR”	the British Bankers’ Association Interest Settlement Rate for the relevant currency and period displayed on the LIBOR01 page of the Reuters Screen
“Lucky Strong”	Lucky Strong Technologies Limited (祥達科技有限公司), a company incorporated in Hong Kong on 9 March 1993 and owned by an Independent Third Party
“Mr. Wong”	Mr. Wong Fun Chung (黃訓松), the Chairman and chief executive officer of the Company and an executive Director
“Newtower Development”	Newtower Development Limited, a company incorporated in Hong Kong on 17 February 1987, of which Mr. Wong’s brother was one of the shareholders with other Independent Third Parties, formerly a co-founder of Fujian Electronic
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by the People’s Bank of China based on the China inter-bank foreign exchange market rate of the previous day and with reference to current exchange rates on the world financial markets
“PRC” or “China” or “Chinese”	The People’s Republic of China, but for the purposes of this document and for geographical reference only (unless otherwise indicated) excluding Taiwan, Macau Special Administrative Region of the PRC and Hong Kong
“PRC government”	the government of the PRC, including central government and all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“Pre-IPO Share Options”	the options granted by the Company to certain employees and/or consultants of the Group prior to the Listing Date, as described in the section headed “Share Option Scheme — Pre-IPO Share Option Scheme” in Appendix VI to this document
[“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by a board resolution passed on [17 April] 2008
“R&D”	research and development
“Reorganisation”	the reorganisation arrangements undergone by the Group in preparation for the [●] as described in the section headed “History and Development — Reorganisation” in this document
“RMB” and “Renminbi”	the lawful currency for the time being of the PRC
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of HK\$0.10 each excluding Class B Share(s)
“Shareholder(s)”	the holder(s) of Shares
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on [●] 2009, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix VI to this document
“State Council”	The State Council of the PRC (中華人民共和國國務院), the chief administrative authority of the PRC
“subsidiary”	has the meaning set out in section 2 of the Companies Ordinance
“Substantial Shareholder”	has the meaning ascribed thereto under the Listing Rules
“Takeover Code”	the Hong Kong Code on Takeovers and Mergers, as amended from time to time
“Track Record Period”	the three financial years ended 30 June 2009
“U.S.” or “United States”	the United States of America
“US dollars” or “US\$”	United States dollars, the lawful currency for the time being of the United States
“Wide Plus”	Wide Plus Precision Instruments Company Limited (上潤精密儀器有限公司), a company incorporated in Hong Kong on 20 August 1991 and a wholly-owned subsidiary of Wide Sincere Enterprises Limited, formerly held the entire equity interest of Fujian Wide Plus
“Wide Plus High Precision”	Wide Plus High Precision Automation Limited (上潤高精密自動化有限公司), a company incorporated in Hong Kong on 11 December 2007 as an investment holding company and a direct wholly-owned subsidiary of the Company
“Wide Plus Investments”	Wide Plus Investments Limited, a company incorporated in Hong Kong on 14 September 1990, which was established by Mr. Wong with an Independent Third Party, formerly a co-founder of Fujian Electronic and founder of Fuzhou Shanglun

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## DEFINITIONS

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“WTO” World Trade Organization

“%” per cent

*In this document if there is any inconsistency between the Chinese names of the PRC entities and their English translation, the Chinese version shall prevail.*

*Unless otherwise specified, translations of HK\$ into US\$, RMB into HK\$ and HK\$ into RMB in this document are based on the rates set out below (for the purpose of illustration only):*

US\$1.00 : HK\$7.80  
RMB1.00 : HK\$[1.1344]  
HK\$1.00 : RMB[0.8815]

*No representation is made that any amounts in RMB, HK\$ and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.*

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain terms used in this document in connection with the Group and its business. This terminology and the given meaning may not correspond to the standard meaning and usage adopted in the industry.*

- “A field control system (FCS)”** is provided with a field device arranged at a process site, a control computer system connected to the field device via a signal line, a signal converting part, which is arranged at the middle of the signal line and converts a signal transmitted by the signal line based on a wireless protocol, and a wireless communication part which wirelessly transmits the signal converted by the signal converting part
- “Actuator (執行儀錶)”** an executor that receives data transmitted to it and performs certain mechanical actions such as opening or closing of valves
- “ATEX Directive”** means Directive on Equipment and Protective Systems Intended for Use in Potentially Explosive Atmospheres 94/9/EC, which became mandatory from 1 July 2003 in the European Union and provides the technical requirements to be applied to equipment intended for use in potentially explosive atmospheres
- “CE Mark”** is a mandatory marking for certain product groups to indicate conformity with the essential health and safety requirements of the relevant European Directives, of which there are 25 including the ATEX Directive, EMC Directive and the RoHS Directive, before such product can be sold within the European Union
- “CIMA”** China Instrument Manufacturer’s Association (中國儀器儀錶行業協會), which is a non-profit national industry association in China established in August 1988 to act as a bridge between government departments and its members and to encourage information exchange amongst and between its members and similar industry associations overseas and is an Independent Third Party
- “CNC”** computer numerical control refers specifically to a computer “controller” that reads G-code instructions and drives a machine tool, a powered mechanical device typically used to fabricate components by the selective removal of material. CNC does numerically directed interpolation of a cutting tool in the work envelope of a machine. The operating parameters of the CNC can be altered via a software load program
- “Control system (控制系統)”** a system that links together any or all of the detectors, indicators, controllers and actuators to assist in monitoring and controlling an entire production process

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## GLOSSARY OF TECHNICAL TERMS

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<b>“DCS”</b>	<p>is a distributed control system (DCS) refers to a control system usually of a manufacturing system, process or any kind of dynamic system, in which the controller elements are not central in location (like the brain) but are distributed throughout the system with each component sub-system controlled by one or more controllers. The entire system of controllers is connected by networks for communication and monitoring.</p> <p>DCS is a very broad term used in a variety of industries, to monitor and control distributed equipment.</p> <ul style="list-style-type: none"><li>• Electrical power grids and electrical generation plants</li><li>• Environmental control systems</li><li>• Traffic signals</li><li>• Water management systems</li><li>• Oil refining plants</li><li>• Chemical plants</li><li>• Pharmaceutical manufacturing</li><li>• Sensor networks</li><li>• Dry cargo and bulk oil carrier ships</li></ul>
<b>“EMC Directive”</b>	<p>means Directive on Electro Magnetic Compatibility 89/336/EEC, which is part of a series of European Directives and provides the technical requirements to be applied to electrical and electronic products such that they do not cause excessive electromagnetic interference and are not duly affected by electromagnetic interference</p>
<b>“GOST-K Mark”</b>	<p>is a mandatory marking for many products to be sold on the Kazakhstan market which indicates compliance with the applicable safety, technical and quality codes and standards in accordance with the relevant laws in Kazakhstan</p>
<b>“GOST-R Mark”</b>	<p>is a mandatory marking for many products to be sold on the Russian market to assure compliance with applicable safety, technical and quality standards in accordance with the relevant laws in Russia</p>
<b>“HAC”</b>	<p>Horology Association of China (中國鐘錶協會), which is a national industry association in China established in 1985 to act as a bridge between the government and enterprises and is an Independent Third Party</p>



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## GLOSSARY OF TECHNICAL TERMS

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<b>“ISO”</b>	Acronym for a series of quality management and quality assurance standards published by the International Organization for Standardization, a non-governmental organisation based in Geneva, Switzerland, for accessing the quality systems of business organisations
<b>“Mechatronic technology”</b>	also known as electromechanical technology, means the synergistic combination of mechanical engineering, electronic engineering and software engineering, which assists to produce simpler, more economical, reliable and versatile control system
<b>“PLC”</b>	is a programmable logic controller (PLC), or programmable controller which is a digital computer used for automation of industrial processes, such as control of machinery on factory assembly lines. Unlike general-purpose computers, the PLC is designed for multiple inputs and output arrangements, extended temperature ranges, immunity to electrical noise, and resistance to vibration and impact. Programs to control machine operation are typically stored in battery-backed or non-volatile memory. A PLC is an example of a real time system since output results must be produced in response to input conditions within a bounded time, otherwise unintended operation will result
<b>“RoHS Directive”</b>	means Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment 2002/95/EC, which was adopted in February 2003 by the European Union and restricts the use of six hazardous materials in the manufacture of various types of electronic and electrical equipment, namely, lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) flame retardants
<b>“Specialised Integrated Circuit”</b>	is a miniaturized electronic circuit, consisting of mainly semiconductor devices and other passive components and has been manufactured in the surface of a thin substrate of semiconductor materials
<b>“Surface mount technology (SMT)”</b>	is a method for constructing electronic circuits in which the components (SMC, or Surface Mounted Components) are mounted directly onto the surface of printed circuit boards (PCBs). Electronic devices so made are called <i>surface-mount devices</i> or SMDs. In the industry it has largely replaced the through-hole technology construction method of fitting components with wire leads into holes in the circuit board
<b>“ZigBee”</b>	the name of a specification for a suite of high level communication protocols using small, low-power digital radios based on the IEEE 802.15.4 standard for wireless personal area networks (WPANs), such as wireless headphones connecting with cell phones via short-range radio. The technology is intended to be simpler and cheaper than other WPANs, such as Bluetooth. ZigBee is targeted at radio-frequency (RF) applications that require a low data rate, long battery life, and secure networking

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## RISK FACTORS

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*You should consider carefully all of the information set out in this document and, in particular, should evaluate the following risks in connection with an investment in the Group, certain of which are not typically associated with investing in equity securities of companies located predominantly in Hong Kong or other economically advanced jurisdiction.*

*You should pay particular attention to the fact that the Company is incorporated in the Cayman Islands and that most of the Group’s operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from those that prevail in other countries. The Group’s business, financial condition or results of operations could be affected materially and adversely by any of these risks. Additional risks not currently known to the Company or that the Company now deems immaterial may also harm the Group and affect your investment.*

*The Directors believe that there are certain risks involved in the Group’s operations. They can be broadly categorised into: (i) risks relating to the Group; (ii) risks relating to the industrial automation instrument industry, (iii) risks relating to the horological instrument industry, (iv) risks relating to the PRC; and (v) risks relating to the [●].*

*The Group did not provide any financial support in any form to relevant professional bodies for the preparation of the reports being used in this section. The Directors believe the reports are prepared in accordance with the statistics obtained from various governmental official publicly available sources and the surveys conducted by relevant professional bodies.*

### RISKS RELATING TO THE GROUP

**The Group may encounter unexpected difficulties when expanding its business in the future.**

The Group plans to continue to expand its business in the future by, among other things, increasing the number of products it offers and by expanding the type of customers and geographical locations that it serves, both domestically in China as well as internationally. However, any expansion may require managerial, technical, financial, production, operational and other resources, systematic internal control systems, the employment of additional skilled personnel, and would also require the Group to obtain new customers, suppliers, equipment vendors and to establish business relationships with other third parties. As a result, there can be no assurance that the Group will be able to expand its operations effectively in the future and failure to do so may adversely affect the Group’s operations and financial results, as it will have devoted substantial financial resources (in the form of capital expenditures) and human resources (in the form of management time and expenses associated with hiring more employees) toward any such failed expansion.

**The construction and installation of the Group’s new production facilities may not be completed within the time frame or at the cost levels originally anticipated and, as a result, it may not be able to implement its future plans for expansion.**

In the future, the Group intends to increase its production volume, particularly with respect to high precision industrial automation instrument and technology products, by constructing new facilities and by purchasing additional equipment. Any technical difficulties, human, funding or other resource constraints, or other difficulties, could materially and adversely affect the schedule

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## RISK FACTORS

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for the construction of these production facilities and the costs of implementing such projects, which may exceed the budgets contemplated by the Group. If the construction timetables or delivery schedules for machinery are delayed, or if the commencement of commercial operations at production lines in the new facilities is postponed, or if the Group is unable to recruit a sufficient number of skilled or experienced personnel in connection with any such expansion, the Group may not be able to implement its expansion plans within the original timeframe or within the original budgeted cost, either or both of which may in turn impact its business operations and financial results.

**The Group is dependent upon a small number of key suppliers from whom it purchases a significant majority of its raw materials.**

The Group’s purchases from its top five suppliers during the Track Record Period accounted for approximately 80.6%, [76.8%] and [72.8]% of the Group’s total purchases from all outside suppliers. The Group has not entered into any long term purchase agreement with any of its key suppliers. There is no assurance that these suppliers will continue to supply the Group with raw materials in the future at all or maintain a stable source of supply. If these suppliers were unable or unwilling to do so, there is also no assurance that the Group would be able to source raw materials from alternative sources at all, or at commercially reasonable prices, or in a timely manner.

**The Group is dependent upon timely delivery by its suppliers of certain parts, components and services that meet quality standards set by the Group to manufacture its products.**

The Group purchases non-key and non-technologically-advanced parts and components from its suppliers to achieve greater cost efficiency and increase production capacity. In the production of high precision industrial automation instrument and technology products, sensor components (K1系列傳感器) are purchased from the Group’s suppliers. Please refer to the section headed “Business — Raw Materials” for more information on the supply arrangements between the Group and its suppliers. By sourcing these and other components from third party suppliers, the Group has less control over manufacturing yields, quality assurance and product delivery schedules. The Group’s suppliers may not have sufficient capacity to meet the Group’s needs in a timely manner and in accordance with the Group’s quality standards. The Group cannot assure investors that it will not encounter problems with its suppliers in the future, or that the Group will be able to replace unsatisfactory suppliers. Shortages or delays in the supply of parts, components or other materials from its suppliers may adversely affect the Group’s business operations or its financial results.

**The Group is heavily dependent on its key executives and personnel, hiring and retaining a highly qualified workforce.**

The Directors believe that to a significant extent, the Group’s business operation is dependent, among other things, upon the technical know-how and managerial experience of the Group’s key management team (details about whom are included in the section headed “Directors, senior management and staff” in this document) and the technical expertise of the Group’s research and development team. Although each of the key technical and management and research and development personnel has entered into a service agreement with the Group for a fixed term, competition for professional employees is intense, and there is no assurance that they will remain employed with the Group. If any such members of management or technical personnel were to leave the Group, and if the Group fails to find immediate and adequate

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replacements or if the Group is unable to further recruit competent successors or competent personnel in connection with its future growth, the Group’s future plans, the implementation of the Group’s business strategies and its current business operations may be harmed.

### **The Group’s operating results may fluctuate.**

The Group’s operating results may fluctuate significantly depending on all or any of the following principal factors, among others:

- changes in demand for its products and services;
- its customers’ sales outlook, purchasing and production patterns and inventory adjustments;
- the effectiveness with which the Group manages its manufacturing processes, controls its costs and integrates potential future acquisitions;
- the Group’s ability to make optimal use of its available manufacturing capacity;
- changes in the cost and availability of labour, raw materials and other inputs (such as electricity), which often occur in the manufacturing industry and affect the margins and ability of the Group to meet delivery schedules;
- the ability of the Group to manage the timing of its raw materials purchases, so that raw materials are available when needed for production, while avoiding the risks of accumulating excessive inventory;
- the Group’s ability to obtain financing in a timely manner;
- local conditions and events that may affect the production volumes of the Group, such as labour conditions and political instability; and
- seasonal fluctuations in customer orders.

The Group’s operating results may fluctuate from period to period due to the abovementioned factors and other risks discussed in this section, many of which are beyond the control of the Group. As a result, the Share price may be volatile and may not always accurately represent the longer-term value of the Group.

### **The Group does not have land use right certificate for a parcel of land in the PRC.**

The Group does not have the land use right certificate for a parcel of land [that it has paid the land transfer fee for] with a site area of approximately 8,015.5 square metres which is located at Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC. The Group intends to use the site for the construction of new manufacturing facilities. [As at the Latest Practicable Date], the Group has not yet obtained the land use right certificate for the site because the Mawei State Land and Resources Bureau (馬尾區國土資源局) has yet to hand over the site to the Group. The removal of production facilities, which are still occupied by Independent Third Parties, on the site is in progress and is expected to complete by the end of 2009. Hence, the Group could not take possession of the above site. It is expected that the Group will obtain the valid land use right certificate of the site after the removal.

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The Group’s occupation and use of such properties are subject to potential restrictions which may be out of the Group’s control. Any requirement to cease using or relocating such properties may have an adverse effect on the Group’s business or results of operation in the future.

**The Group used not to make contributions to the housing fund.**

According to the laws and regulations of the PRC, as part of employees’ welfare and benefits, companies are required to make contributions to a government administered housing fund at a rate of no less than 5% of average monthly salaries paid to employees in the previous year. Fujian Wide Plus, however, used not to make contributions to the housing fund from its incorporation [until May 2008]. For details relating to the reason why Fujian Wide Plus did not make contributions to the housing fund, the potential penalties to which Fujian Wide Plus may be subject and the improvements in this aspect made by Fujian Wide Plus since May 2008 up to the [Latest Practicable Date], please refer to the sub-section headed “Regulatory Matters” of the section headed “Business” in this document.

**The Group used not to obtain medical insurance coverage under the social insurance schemes for its employees.**

The Group used not to obtain medical insurance coverage for its employees as required under the relevant PRC laws and regulations. For details relating to the reason why Fujian Wide Plus did not obtain medical insurance coverage under the social insurance schemes for its employees, the potential penalties to which Fujian Wide Plus may be subject and the improvements in this aspect made by Fujian Wide Plus since June 2008 up to the [Latest Practicable Date], please refer to the sub-section headed “Regulatory Matters” of the section headed “Business” in this document.

**The Group may be adversely affected by the recent financial crisis and credit crunch.**

The recent financial crisis and credit crunch have adversely affected the U.S. and the global economies. With a deteriorating global economy, demand for high precision industrial instrument and technology products and the horological products may be diminished, which in turn will affect the demand for the Group’s products. In addition, the credit crunch may increase the interest expenses on the Group’s bank borrowings, or cause banks to reduce the amount of or discontinue the banking facilities currently available to the Group. If the economic downturn continues, the Group’s business operations may be adversely affected.

**The Group is exposed to credit risks of its distributors.**

The Group provides credit terms to its distributors based on its assessment of each distributor’s financial condition. The Group’s increased sales going forward may rely heavily on credit, and the Group may be unable to collect these trade receivable in full or at all. During the Track Record Period, the Group’s trade receivable balance was approximately RMB138.6 million, RMB255.4 million and RMB258.0 million, respectively. The increase in the Group’s trade receivable balance was a result of the increased sales of the Group during the Track Record Period and the extension of the credit period offered to the customers that have good credit histories and sales growth from 90 days to 120 days up to 150 days. The failure of these distributors to pay the Group in a timely manner will adversely affect the Group’s business, financial condition and results of operations.

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**Any significant downtime in the Group’s production facilities would adversely affect the Group’s business.**

The Group’s business requires substantial investments in complex production facilities and the uninterrupted operation of specialized manufacturing equipment. Substantial damage to the Group’s production facilities from extraordinary events, such as earthquakes, floods and fires, or resulting consequences and disruptions, could be costly and time-consuming to repair and may disrupt our production. Any disruption or delay in the Group’s production may require the Group to incur additional expenses in order to produce sufficient inventory and could impair the Group’s ability to meet the demand of customers and cause the Group’s customers to cancel orders, any of which could negatively affect the Group’s reputation and results of operations.

**The Group has limited insurance coverage.**

The insurance industry in China is in an early stage of development compared with countries such as the United States. Insurance companies in China offer limited commercial insurance products. According to the Directors, the Group did not have any product liability (for up till 5 April 2009) and the Group does not maintain any business interruption, or litigation insurance coverage for the Group’s operations. Any uninsured loss or damage to property, litigation or business disruption may cause the Group to incur substantial costs and the diversion of resources, which could have a material adverse effect on our financial condition and results of operations. The occurrence of certain incidents including earthquake, fire, severe weather, war, floods, power outages and the consequences, damages and disruptions resulting from them may not be covered adequately or at all by the Group’s insurance policies. If the Group was to incur substantial liabilities that are not covered by the Group’s insurance policies or if the Group’s business operations were interrupted for a substantial period of time, the Group could incur costs and losses that could materially and adversely affect the Group’s business, financial condition, results of operations and business prospects.

**The Group’s manufacturing processes involve inherent risks and occupational hazards.**

The Group’s business operations, particularly the Group’s manufacturing activities, involve risks and occupational hazards that are inherent to the manufacturing industry and which cannot be completely eliminated through preventive efforts. The Group cannot assure that accidents, which may result in property damage, severe personal injuries or even fatalities will not occur at our production facilities. The occurrence of any of the foregoing events may have an adverse effect on the Group’s business, financial condition and results of operations.

**Power shortages or substantial increase in energy costs could have an adverse impact on the Group’s operations.**

The Group consumes substantial amount of electricity in its production process. The Group’s production schedules may be affected by power shortages and blackout periods as a result that the PRC Government imposes restrictions on the use of electricity due to power shortages, thereby disrupting our power supply, or if the Group is otherwise unable to obtain adequate supplies of electricity to meet its requirements, its production operations would be disrupted and its production and delivery schedules would be adversely affected. The Group cannot assure that it will be able to recover the substantial cost increases of energy by raising the prices of its products.

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### RISKS RELATING TO THE INDUSTRIAL AUTOMATION INSTRUMENT INDUSTRY

**General economic growth in the PRC is a key driver of the Group’s business and financial results, in particular with regard to demand for its high precision industrial automation instrument and technology products. If economic growth in the PRC were to slow or stop in the future due to decrease of the PRC domestic demand or global financial crisis, the Group’s business, turnover and profitability may be harmed.**

During the Track Record Period, 86.7%, 86.5% and [89.9]% of the Group’s total turnover was derived from sales in the PRC (other than Hong Kong) while the remainder was derived from sales in Hong Kong. Substantially all of its operations are also located in the PRC. As a result, economic growth in the PRC has a direct impact on virtually all aspects of the Group’s operations, including the level of demand for its high precision industrial automation instrument and technology products and horological instruments, the availability and prices of raw materials, as well as the level of other expenses, including labour costs. With regard to expenses, notably the Group’s unit labour costs have risen over the Track Record Period.

General economic growth in the PRC has a particularly acute impact on the demand for the Group’s high precision industrial automation instrument and technology products, if economic growth in the PRC were to slow or stop in the future due to a decrease in domestic demand or the global financial crisis, demand for the Group’s high precision industrial automation instrument and technology products may fall, which may result in lower unit sales and lower selling prices, or both. If economic growth slows, the Group’s profitability may be harmed, as the segment gross profit margins for all of its products may fall.

For these reasons, if economic growth in the PRC were to slow or stop in the future due to a decrease of the PRC domestic demand or the global financial crisis, the Group’s business, turnover and profitability may be harmed.

**If international or Chinese competitors in the Group’s high precision industrial automation instrument and technology products business were in the future to begin to manufacture and sell products in their unique niche in the Chinese market, the Group’s business and profitability may be harmed.**

The average selling prices of the Group’s high precision industrial automation instrument and technology products remained, with a couple of exceptions, relatively stable over the Track Record Period, and the Group’s segment gross profit margins on sales of its high precision industrial automation instrument and technology products were 49.3%, [50.3%] and [50.1]% during the Track Record Period.

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The following table shows the average selling prices of the Group’s high precision industrial automation instrument and technology products for the years indicated:

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Average selling price (unaudited)<sup>(1)</sup></b>			
<b><i>Principal High precision industrial automation instrument and technology products</i></b>			
Detectors	[1,843.92]	[1,921.20]	[2,059.38]
Indicators	[450.78]	[446.95]	[447.83]
Controllers	709.3	[732.71]	[786.66]

<sup>(1)</sup> Average selling price has been computed by dividing the turnover from sales of a particular product category in a given year by the units sold during that time.

If international or Chinese competitors in the Group’s high precision industrial automation instrument and technology products business begin to manufacture and sell products in their niche, the Group’s unit sales may be harmed or it may be forced to cut its prices. Since the turnover derived from sales of high precision industrial automation instrument and technology products represented 64.1%, 70.9% and [74.6]% of the Group’s total turnover during the Track Record Period, if that were to happen, the Group’s future business and profitability may be harmed.

**Demand for and supply of the Group’s high precision industrial automation instrument and technology products may be adversely affected by numerous factors, some of which the Group cannot predict or control, which could adversely affect its results of operations.**

Numerous factors may affect the demand for and supply of the Group’s high precision industrial automation instrument and technology products, including:

- changes in the market acceptance of its products;
- increased competition in the markets it serves;
- changes in economic conditions in individual markets;
- declines in the general level of industrial production; and
- declines in the availability or increases in the prices of raw materials.

If any of these factors occur, the demand for and supply of the Group’s high precision industrial automation instrument and technology products may suffer, which may adversely affect its results of operations.



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**The raw materials used in the Group’s production processes and by its suppliers of component parts are subject to price and supply fluctuations that may increase the Group’s costs of sales and adversely affect the Group’s results of operations.**

The Group’s supply of raw materials for its industrial automation instrument and technology products may be interrupted for a variety of reasons, including the availability and pricing of raw materials. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases may adversely affect the Group’s results of operations and profit margins.

The Group’s suppliers of component parts may significantly and quickly increase their prices in response to increases in costs of raw materials that they use to manufacture their component parts. In those circumstances, the Group may not be able to increase its prices commensurately with its increased costs. Consequently, its profitability, results of operations and financial condition may be materially and adversely affected.

**If the Group is not able to pass onto its customers for its high precision industrial automation instrument and technology products any future increases in the costs of the raw materials used in the manufacture thereof, the Group’s profitability and profit margins may be harmed.**

The Group’s direct materials costs related to the manufacture of its high precision industrial automation instrument and technology products was the largest component of the Group’s cost of sales in each period of the Track Record Period. Direct materials costs related to the manufacture of high precision industrial automation instrument and technology products represented 56.8%, [62.8%] and [66.0%] of the Group’s total cost of sales in each year of the Track Record Period.

There is no guarantee that the costs of these or other raw materials will remain stable in the future or that any increases in such prices will not lead to unexpected increases in the Group’s production costs. There can be no assurance that in the future the Group will be able to increase the price of its products.

If the Group is unable to increase the prices it charges for its high precision industrial automation instrument and technology products to offset any such increases in the costs of the raw materials, or is unable to achieve comparable cost savings elsewhere, the Group’s profitability and profit margins may be harmed.

**Annual turnover derived from sales to the Group’s five largest customers for its high precision industrial automation instrument and technology products represented approximately 58.1%, [37.7%] and [33.7%] of the Group’s total turnover derived from sales of its high precision industrial automation instrument and technology products during the Track Record Period. If the Group is unable to maintain or increase its sales to the foresaid customers, its business and financial results may be harmed.**

Sales to the Group’s five largest customers for its high precision industrial automation instrument and technology products were responsible for approximately 58.1%, [37.7%] and [33.7%] of the Group’s total turnover from sales of its high precision industrial automation instrument and technology products during the Track Record Period. These customers are each only the Group’s top tier distributors for such products, however, the end-users of the Group’s industrial automation instrument and technology products (to whom these products are sold through a chain of distributors) are numerous.

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The Group does not enter into distributorship agreements with any of its distributors beyond one year term. If these distributors cease to cooperate with the Group in the future or substantially reduce the size of the orders that they place with the Group and the Group cannot find suitable replacement distributors in a timely manner, the Group may lose significant business. This concern relates in part to the fact that the Group is not always the primary point of contact at the point of sale or for after-sales services with any of the end-users of its high precision industrial automation instrument and technology products. The various distributors in its distribution chain are primarily responsible for providing customer service to the end-users to whom they sell the Group’s products. Therefore, while end-users may choose the Group’s products because of its “Wide Plus” brand and reputation the Group does not have direct relationship with these end-users that it would otherwise have if it were the primary contact at the point of sale or for after-sales services.

If the Group’s relationships with any of its distributors become strained, their orders reduced or the Group’s relationships therewith terminated entirely, there can be no assurance that the Group will be able to obtain new orders of a similar magnitude from other distributors or on commercially reasonable terms. If the Group is unable to do so, its revenues, profitability and cash-flow will be harmed.

**The Group is dependent on the distributors of its high precision industrial automation instrument and technology products and has limited control over their subsequent re-sales to sub-distributors and end-users.**

The Group does not sell its high precision industrial automation instrument and technology products directly to end-users. The Group derives all of its turnover from such sales to distributors who, directly or through other sub-distributors, re-sell the Group’s high precision industrial automation instrument and technology products to end-users. To the best knowledge of the Directors, the distributors and sub-distributors are Independent Third Parties. None of the Group’s distributors are obliged to work exclusively for the Group, subject to the condition that no distributor can sell an equivalent product produced by a competitor of the Group. [As at the Latest Practicable Date], the Group engaged [16] distributors for its high precision industrial automation instrument and technology products who operated directly or indirectly through over 300 sub-distributors.

Since the Group does not sell its high precision industrial automation instrument and technology products to end-users directly and since it has contractual relationships only with its distributors but not with its sub-distributors, the level of control the Group has over the re-sale of its products by its distributors and sub-distributors is limited. Therefore, there can be no assurance that the current distribution arrangements will be sufficient to maintain the level of sales achieved by the Group during the Track Record Period. Nor can there be any assurance of the quality of the services provided by its distributors and sub-distributors. The dependence placed on the distributors and sub-distributors by the Group exposes the Group to a number of risks, including the following:

- The distributors generally do not have contractual obligations to purchase minimum amounts of the Group’s products;

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- To broaden the pool of potential customers for the Group’s high precision industrial automation instrument and technology products, the Group relies on these distributors and sub-distributors to expand their own distribution networks and there can be no assurance that any such expansion can be done in a timely manner or sufficient in scope to achieve any anticipated future growth in the Group’s sales;
- The actions (or inaction) of these distributors and sub-distributors when interacting with the end-users of the Group’s high precision industrial automation instrument and technology products, at either the point of sale or during after-sales services, could damage the Group’s “Wide Plus” brand; and
- The Group generally enters into short-term, usually one year, distribution contracts with its distributors. There can be no assurance that such contracts will be renewed or renewed on terms that are acceptable to the Group.

**Rapid changes in the industrial automation instrument industry may render the Group’s industrial automation instrument products obsolete.**

For each of the three financial years ended 30 June 2009, turnover derived by the Group from sales of its high precision industrial automation instrument and technology products accounted for 64.1%, 70.9% and [74.6]% of the Group’s total turnover.

The industrial automation instrument industry caters to industrial customers in a broad array of businesses, whose own operations are undergoing rapid development. As a result, the industrial automation instrument industry is itself evolving and the technology incorporated in the manufacture of such products is constantly changing. If the Group cannot adapt to changes in customers’ requirements or does not keep pace with new technological advancements in the industrial automation instrument industry, in the future the Group may not be able to produce the types of automation products demanded by customers or may be unable to produce them at commercially viable cost levels. Any such future inability to manufacture such new products or inability to manufacture them at commercially viable cost levels will result in a reduction in sales volume, thereby reducing the Group’s market share, which will have an adverse effect on the turnover and profitability of the Group’s industrial automation instrument and technology business.

**The market in China for high precision industrial automation instrument and technology products has historically been dominated by foreign companies, some of whom have similar or even larger market shares and may have more substantial financial and other resources than the Group.**

Historically, the market in China for large scale and high precision industrial automation instrument and technology products has been largely dominated by foreign companies. The Directors believe, several of its foreign competitors produce similar products that are technologically more advanced and higher in quality, which may put them in a better position to respond quickly to changing technology or customer needs. Any failure by the Group to anticipate or respond as quickly to any such changes may adversely affect the Group’s business and financial performance. In addition, the competitors (particularly foreign ones), with greater financial and other resources than the Group, may as a result have a greater ability to respond to industry changes or to cut their prices to win market share in the future.

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**Some of the Group’s end-markets are cyclical, which may cause it to experience fluctuations in turnover or operating results.**

The Group may experience fluctuations in revenues and operating results due to economic and business cycles. The Group sells its high precision industrial automation instrument and technology products principally to various industries including the oil, gas, petrochemical, automotive, power, aerospace, and iron and steel markets. Although the Group serves a variety of industries to avoid a dependency on any one, a significant downturn in any one of these markets could cause a material reduction in the Group’s revenues, which may not be offset by increased sales in another market.

**If the Group fails to manufacture and deliver high quality products, it may lose customers.**

Product quality and performance are priorities for the end-users of the industrial automation instrument and technology products. End-users require products that meet stringent performance standards. If the Group fails to maintain and enforce quality control and testing procedures, its products may not meet these stringent performance and safety standards. Substandard products may seriously harm its reputation and its “Wide Plus” brand, resulting in both a loss of current customers and damage its ability to attract new customers, which may have material adverse effect on the Group’s business, financial condition or results of operations.

**The costs of complying with existing or future environmental regulations, and rectifying any violations of these regulations may increase the Group’s expenses or reduce its profitability.**

The Group’s high precision industrial automation instrument and technology products are subject to a variety of environmental laws. The Group cannot predict the nature, scope or effect of future regulatory requirements to which its operations might be subject or the manner in which existing or future laws will be administered or interpreted. Future regulations may be applied to materials, products or activities that have not been subject to regulation previously. The costs of complying with new or more stringent regulations, or with more vigorous enforcement of these or existing regulations may be significant.

Violations of these requirements may result in financial penalties and other enforcement actions. The Group also may be required to halt one or more portions of its operations until a violation is rectified. The costs of rectifying violations or resolving enforcement actions that might be initiated by government authorities may be substantial.

**The costs of complying with existing or future governmental regulations on importing and exporting practices, and of rectifying any violations of these regulations, may increase the Group’s expenses, reduce its revenues or profitability.**

The Group is subject to a variety of laws and international trade practices. It cannot predict the nature, scope or effect of future regulatory requirements to which its international trading practices might be subject or the manner in which existing laws might be administered or interpreted. Future regulations may limit the countries into which certain of its high precision industrial automation instrument and technology products may be sold or may restrict its access to and increase the cost of obtaining products from foreign sources. In addition, actual or alleged violations of such regulations may result in enforcement actions or financial penalties, or both, which may result in substantial costs.

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### **The Group’s future research, design and development activities may not yield the expected benefits.**

The Group has invested into the designs and technologies it has developed for the manufacture of its products. The Group continued success depends on its ability to maintain its commitment to research, design and development efforts. For the three financial years ended 30 June 2009, the Group expended approximately RMB1.7 million, RMB3.3 million and RMB[7.2] million, respectively, on research, design and development activities, or approximately 0.35%, 0.55% and [1.17]%, respectively, of the Group’s total turnover during those years, respectively.

The future research, design and development activities carried on by the Group may not be successful or yield the anticipated benefits. Even if such activities are successful, the Group may not be able to apply the new technologies to products that are accepted by the market or apply them in a timely manner to take advantage of the market opportunities present. Market demand that was expected at the beginning of the Group’s lengthy research and development cycle may not materialise and the benefits that can be derived from newly developed technologies or products may be affected by how quickly competitors can replicate such technologies or products. Furthermore, the technologies or products the Group developed may be made obsolete by new products, newer models of existing products or new technologies developed by its competitors. In the event that technologies or products the Group developed are replicated, replaced or made redundant in a manner which is not anticipated by the Group, its revenues may not offset the costs incurred for developing the new technologies or products, which may have a material adverse effect on the Group’s business and financial performance.

### **The Group may be subject to product liability claims.**

[The Group did not have product liability insurance for its high precision industrial automation instrument and technology products before 5 April 2009. Any malfunction in, or inadequate design of, the high precision industrial automation instrument and technology products that the Group manufactured and sold before 5 April 2009 may result in product liability claims being brought against the Group.]

[Any product liability claims made against the Group may involve allegations of personal injury or property damage, or claims for any financial losses arising from interruption of operations as a result of any consequent property damage. As the Group supplies its high precision industrial automation instrument and technology products to customers in a wide range of industries, large product liability judgements against the Group may be ordered. Generally, if the Group’s high precision industrial automation instrument and technology products are defective, the risk is that the end user may significantly damage their facilities into which these products were incorporated. Apart from the significant adverse impact product liability claims may have on the operating results and financial condition of the Group, such liability claims may also adversely affect the market reputation of the Group and its “Wide Plus” brand, which may result in a decline in demand for its products.]

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### RISKS RELATING TO THE HOROLOGICAL INSTRUMENT INDUSTRY

**If average selling prices of the Group’s plastic quartz watch movements continue to decline, the Group’s profitability may be harmed.**

The average selling prices of the Group’s plastic watch movements have fallen over the Track Record Period because the Group reduced its selling prices to increase market share in an intensely price competitive environment. The Directors believe that the fall of the average selling prices of the Group’s plastic watch movements during the Track Record Period was due to the consequence of a price decrease in similar products, internationally and in the PRC market.

The following table shows the average selling prices of the Group’s horological instruments for the years indicated:

	Year ended 30 June		
	2007	2008	2009
	RMB	RMB	RMB
<b>Average selling price (unaudited)<sup>(1)</sup></b>			
Horological instruments	2.62	[2.06]	[1.85]

<sup>(1)</sup> Average selling price has been computed by dividing the turnover from sales of a particular product category in a given year by the units sold during that time.

In recent years, several international watch makers have moved away from, or reduced their focus on, the lower-end quartz watch movements due to declining prices. To the Group’s knowledge, these changes in the market have left only five significant manufacturers of low-end quartz watch movements: two Japanese and three Chinese, including the Group.

Turnover from sales of horological instruments represented approximately 35.9%, 29.1% and [25.4]% of the Group’s total turnover for the three financial years ended 30 June 2009, respectively, while segment gross profit margins on those sales were approximately 41.0%, [39.3%] and [38.4]% during those same years, respectively. If average selling prices of the Group’s horological instruments continue to decline in the future, its segment gross profit margins on sales thereof may continue to fall. If that were to happen, the Group’s profitability may be harmed.

**If the Group is unable to negotiate with certain of its suppliers related to its horological instrument business to continue to lower their prices, the Group’s future profitability may be harmed if its average selling prices continue to decrease.**

For each of the years during the Track Record Period, the Group’s segment gross profit margins on its sales of horological instruments were approximately 41.0%, [39.3%] and [38.4]%, respectively. While those segment gross profit margins for the Group’s horological instruments have fallen during the Track Record Period (in significant part due to decreasing average selling prices therefor), its segment gross profit margins might have fallen more precipitously during that time had the Group not successfully negotiated for reductions in its direct materials costs.

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The Group’s direct materials costs related to horological instruments were particularly important because they were among the largest single expenses that made up the Group’s cost of sales during the Track Record Period.

If average selling prices of the Group’s horological instruments continue to decline in the future and the Group is unable to successfully negotiate with its suppliers to further cut their prices or maintain currently reduced prices, the Group’s segment gross profit margins on sales of horological instruments may continue to fall. If that were to happen, the Group’s profitability may be harmed.

**Sales to the Group’s five largest customers of horological instruments in aggregate represented approximately 89.6%, [86.9%] and [96.3]% of the Group’s total sales of horological instruments during the track record period. If the Group is unable to maintain or increase its sales to the foresaid customers, its business and financial results may be harmed.**

Sales to the Group’s five largest customers of horological instruments in aggregate accounted for approximately 89.6%, [86.9%] and [96.3]% of the Group’s total turnover of horological instruments during the Track Record Period.

As a result, if the Group were to lose its distributors or if orders from any such distributors were reduced materially, the Group may have difficulties in replacing such lost orders.

If any of the Group’s distributor relationships become strained, their orders reduced or the Group’s relationships therewith terminated entirely, there can be no assurance that the Group will be able to obtain comparable orders from other distributors, or on commercially reasonable terms. If the Group were unable to do so, its turnover from sales of horological instruments, and in turn its profitability, may be harmed.

**The Group is dependent on the distributors of its horological instruments and has limited control over its subsequent re-sales to watch manufacturers.**

The Group does not sell its horological instruments directly to watch manufacturers. Instead, the Group derives its turnover from sales to distributors who then re-sell the Group’s horological instruments to watch manufacturers. To the best of the Directors’ knowledge, the watch movement distributors are Independent Third Parties. None of the Group’s distributors are obliged to work exclusively with the Group. [As at the Latest Practicable Date], the Group mainly sold its horological instruments through four horological instruments distributors who have entered into distributorship agreements with the Group.

Since the Group does not sell its horological instruments to watch manufacturers directly, the level of control the Group has over the re-sale of its products by its distributors is limited. Therefore, there can be no assurance that the current distribution arrangements will be sufficient to maintain the level of sales achieved by the Group during the Track Record Period. Nor can there be any assurance that the services provided by its horological instruments distributors are of high quality. This dependence on horological instruments distributors exposes the Group to a number of risks, including the following:

- The distributors generally have contractual obligation to purchase agreed minimum quantities of the Group’s products and they may not be able to honor the contractual obligation;

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- To broaden the pool of potential customers for the Group’s horological instruments, the Group relies on these distributors to expand their own distribution networks and there can be no assurance that any such expansion would be done in a timely manner or sufficient in scope to achieve any anticipated future growth in the Group’s sales;
- The actions (or inaction) of these distributors when interacting with the watch manufacturers, at either the point of sale or during after-sales services, may damage the Group’s reputation; and
- The Group generally enters into short-term, usually one year distributorship agreements with its distributors. There can be no assurance that such agreements will be renewed or renewed on terms that are acceptable to the Group.

**The Group’s primary competitors in its horological instrument business may have a number of competitive advantages over the Group.**

Watch manufacturers in the PRC have historically imported quartz watch movement. The Group’s multi-national competitors may have a greater access to financial and technical resources than the Group, and have stronger relationships with certain potential customers who are PRC-based watch makers. As a result, the Group may have added difficulty expanding its customer base in China for its plastic watch movements in the future.

**Economic conditions and other factors beyond the Group’s control may have a material adverse effect on the Group’s sales, profitability and results of operations.**

The amount of net sales and operating income generated may depend upon the general level of retail sales, as well as economic conditions and other factors beyond the Group’s control. If events or circumstances were to occur that negatively impact consumer spending, it could have a material adverse effect on the Group’s sales, profitability and results of operations.

**The Group makes commitments regarding the level of business it still seeks and accepts, including production schedules and personnel levels, any significant order cancellations, reductions, or delays by its customers may materially and adversely affect its business.**

The Group’s sales of horological instruments are generally made pursuant to one year distributorship arrangements. The Group makes commitments regarding the timing of production schedules and the levels and utilisation of personnel and other resources. A variety of conditions may cause customers to cancel, reduce or delay orders that were either previously made or anticipated. Significant or numerous order cancellations, reductions or delays by the Group’s customers may have a material adverse effect on the Group’s business, financial condition or results of operations.

**The prices of the Group’s horological instruments have decreased in recent years, which may have a negative impact on the Group’s sales and profit margins on that business line.**

The pricing of the watch movements that the Group manufactures and sells has declined. These market conditions may have a negative impact on the Group’s turnover from sales of any such products and its profit margins. Furthermore, the potential need for aggressive pricing programs in response to market conditions may further affect the Group’s profit margins on that business line.



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**The Group’s horological instruments may be found to be defective and, as a result, warranty and/or product liability claims may be asserted against the Group which could have a material adverse effect on its quartz watch movement business.**

The Group’s horological instruments are sold at prices that are significantly lower than the cost of the watches in which they are incorporated. Since a defect or failure in a product may give rise to failures in the end products that incorporate them (and claims for consequential damages against the Group), it may face claims for damages that are disproportionate to the sales and profits that the Group receive from the initial sale of the horological instruments involved. The Group’s business may be materially and adversely affected as a result of a significant quality or performance issue in the products sold, depending on the extent to which the Group may be required to pay for the damages that result.

### RISKS RELATING TO THE PRC

Substantially all of the Group’s assets are located in the PRC, and a substantial majority of the Group’s sales are made to customers in the PRC. Accordingly, the Group’s financial condition, results of operations and prospects will be affected to a significant extent by economic, political and legal developments in the PRC.

**Adverse changes in China’s economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China’s overall economic growth, which in turn, may materially and adversely affect the Group’s business, financial condition and results of operations.**

The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of governmental involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange and capital flows; and (vi) allocation of resources. The Chinese economy is in transition from a planned economy to a market economy. For the past two decades, the PRC government has implemented economic reform measures, emphasizing the utilisation of market forces in the development of the Chinese economy. There can be no assurance that any changes in China’s political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on the Group’s current or future business, financial condition and results of operations. In response to concerns regarding China’s high growth rate in industrial production, bank credit, fixed investment and money supply, the PRC government has, from time to time, taken measures to slow down economic growth to a more sustainable level. These measures and any additional crunch measures could contribute to a slowdown in the Chinese economy, which may materially and adversely affect our business, financial condition, and results of operations.

**Inflation in the PRC may negatively affect the Group’s profitability and growth.**

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past decade, the rate of inflation in China has been as high as approximately 20% and China has experienced deflation as low as approximately minus 2%. If prices for the Group’s products rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on the Group’s profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. The implementation of such policies may impede economic

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growth. In October 2004, the People’s Bank of China, the PRC’s central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was prompted by inflationary concerns in the Chinese economy. In April 2006, the People’s Bank of China raised the interest rate again. Repeated rises in interest rates by the central bank will likely slow economic activity in China which may, in turn, materially increase the Group’s costs and also reduce demand for its products.

**A downturn in the economy of the PRC may slow down the Group’s growth and profitability.**

The growth of the Chinese economy has been uneven across geographic regions and economic sectors and may be affected by the global financial crisis. There can be no assurance that growth of the Chinese economy will be steady or that any downturn will not have a negative effect on the Group’s business, especially if it results in either a decreased use of its products or in pressure on the Group to lower its prices.

**Compliance with more stringent environmental and workplace safety regulations may adversely affect the business operations of the Group.**

All of the Group’s operations are subject to compliance with applicable environmental, health and safety, fire prevention laws and other regulations. Any change in the scope or application of these laws, regulations or approvals may limit the production capacity or increase the costs of the Group. Any failure to comply with these laws and regulations may result in fines, penalties or lawsuits. There can be no assurance that the PRC government will not impose additional or more stringent laws or regulations, compliance of which may lead to the Group incurring significant capital expenditures, which may materially affect the business operations of the Group.

**The Group’s operating costs may increase due to provision of staff benefits as required by the PRC government.**

Pursuant to the relevant PRC laws and regulations, the Group has made and continues to make contributions to a National Social Security Fund. Should the scope of these employee contribution funds expand or the rate of the Group’s mandatory contributions increase, the Group’s operating costs may increase, thereby negatively affecting its profitability.

**Changes in the PRC Government policy in relation to capital expenditures or other investment in the industries in which the Group’s customers operate may adversely affect the Group’s business operations.**

The Group’s business operations may be affected to a significant extent by the changes in PRC government policies from time to time. The Group serves a large number of industries and customers, and the level of their demand for the Group’s products and services may fluctuate due to factors beyond its control, one of which include changes in the PRC government policies applicable to the industries in which the Group and its customers operate. Apart from demand for high precision industrial automation instrument and technology products as a result of routine maintenance, repair and upgrades, the major demand for high precision industrial automation instrument and technology products comes from new factories or other projects, that requires entirely new automation systems to be installed. If future government policies discourage or are not favourable to capital expenditures or other future investments in the relevant industries, the demand for the Group’s high precision industrial automation instrument and technology products

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may be directly and adversely affected. As such, there is no assurance that the demand for the Group’s products and services will not decline as a result of future PRC government policy changes.

**The Group’s operations may be adversely affected by any unexpected interruptions in its production process.**

Every stage in the Group’s production lines must run smoothly in order for the Group to manufacture its products at an acceptable yield rate and with sufficient quality. Its production lines may be seriously affected by interruptions due to fires, power failure or other factors that are beyond the Group’s control. Any such disruption of the Group’s operations may cause interruption or delay in its production, preventing it from meeting customer orders, increasing its costs of production or requiring it to make unplanned capital expenditures, each of which may adversely affect its business and results of operations.

**The Company is a holding company that heavily relies on dividend payments from its subsidiaries for funding.**

The Company is a holding company incorporated in the Cayman Islands and conducts substantially all of its operations through its operating subsidiary, Fujian Wide Plus. Most of the assets of the Company are held by, and substantially all of the Company’s earnings and cash flows are attributable to, Fujian Wide Plus. Therefore, the availability of funds to enable the Company to pay dividends to its Shareholders depends upon the dividends received from Fujian Wide Plus. The ability of Fujian Wide Plus to pay dividends depends on business considerations including its operating results and cash flows, and regulatory restrictions including its articles of association and applicable provisions of the PRC laws and regulations. If Fujian Wide Plus incurs indebtedness or losses, such indebtedness or losses may impair its ability to pay dividends or other contributions to the Company and the ability of the Company to pay dividends and to service its indebtedness will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions, including Hong Kong Financial Reporting Standards (“HKFRS”). PRC laws also require PRC incorporated enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that the Company or its subsidiaries may enter into in the future may also restrict the ability of its subsidiaries to make contributions to the Company and its ability to receive distributions. Therefore, these restrictions on the availability and usage of the Company’s major source of funding may impact the ability of the Company to pay dividends to its Shareholders and to service its indebtedness.

**The Group may not be able to adequately protect its intellectual property, which may adversely affect the business operations of the Group.**

The Group’s ability to compete successfully and to achieve future revenue growth will depend, in a significant part, on its ability to protect its proprietary technology. Please see the sub-section headed “Intellectual Property Rights” under the “Business” section in this document. The Group seeks to protect its intellectual property rights through a combination of trade secrets patents, contractual rights and copyrights. The enforcement of PRC intellectual property-related laws has historically been difficult, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in other countries. Policing any unauthorised use of the

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Group’s intellectual property is difficult and costly, and the steps the Group has taken may be inadequate to prevent the leakage of its trade secrets or misappropriation of its proprietary technology. Additionally, there can be no assurance that any patent or registered trademark owned by the Group will be enforceable or will not be invalidated, circumvented or otherwise challenged in the PRC or that the rights granted thereunder will provide competitive advantages to the Group or that any of its pending or future patent applications will be issued with the scope of the claims sought by the Group. Furthermore, as the Group only holds PRC patents, if third parties manufacture and sell products using its patented technologies outside of the PRC in competition against the Group, it may not have a legal cause of action against them.

The Group currently collaborates with certain universities and educational institutes to develop new technologies and products and some technologies and products so innovated are to be jointly-owned by the Group and the respective universities and educational institutes. There is no assurance that the Group can secure protection for its intellectual property rights in the new technologies and products developed by the Group under such collaborations or that its competitors will not independently develop alternative technologies that are equivalent or superior to the technologies based on these intellectual properties.

Any of these events or occurrences may have a material adverse effect on the Group’s operations. In addition, litigation may be necessary to enforce the Group’s patents and other intellectual property rights, determine the validity of and scope of the proprietary rights of others, or defend against claims of infringement or invalidity. Litigation may result in substantial costs and diversion of resources which may harm the business of the Group and may result in its intellectual property rights being held invalid or unenforceable.

**Government control in currency conversion and future movements in foreign exchange rates may adversely affect the Group’s financial condition, results of operations, and ability to remit dividends.**

The value of the Renminbi depends on the PRC’s political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and US dollars, has been based on PBOC Rates set by the People’s Bank of China (“PBOC”). Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable. However, the Chinese government has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 21 July 2005, the revaluation resulted in the Renminbi appreciating against the U.S. dollar and Hong Kong dollar by approximately 2%. On 23 September 2005, the Chinese government widened the daily trading band for Renminbi against non-U.S. dollar currencies from 1.5% to 3% to improve the flexibility of the new foreign exchange system. A significant appreciation of the Renminbi will have a material impact on the Group’s foreign currency denominated revenue from the Group’s operations. A significant depreciation of Renminbi will, on the other hand, affect the Group’s ability to remit dividends.

In addition, Renminbi is not freely convertible into other currencies, except under certain circumstances. Since 1996, a number of rules, regulations and notices regarding foreign exchange control (the “Exchange Regulations”) have been issued by the PRC government which are designed to allow a degree of convertibility of Renminbi. Under the Exchange Regulations, foreign investment enterprises are permitted to convert Renminbi to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks by complying with various procedural requirements. Control over conversion of Renminbi to foreign currencies for capital

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account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. Under the current foreign exchange control system, there is no guarantee that the Group will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

The Group’s financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, such as Hong Kong dollars and US dollars, as some of the Group’s revenues, obligations or holdings are denominated in Hong Kong dollars or US dollars.

### **The Group currently faces foreign currency exchange risk.**

The Group is subject to foreign currency exchange risk, which it is currently not being hedged. During the Track Record Period, the Group’s turnover, costs of sales and operating expenses have, to a limited degree, been denominated in different currencies. During the Track Record Period, 86.7%, 86.5% and [89.9]% of the Group’s turnover was derived from sales in the PRC (other than Hong Kong) denominated in Renminbi, while the remainder was derived from sales in Hong Kong denominated in Hong Kong dollars and US dollars. The Group does, however, have certain other costs and expenses related to its business denominated in other currencies, including imported machinery. During each of the financial years ended 30 June 2007 and 30 June 2008, the Group recorded an exchange loss of approximately RMB110,000 and RMB3,112,000. During the financial year ended 30 June 2009, the Group recorded an exchange gain of approximately RMB63,000.

On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the US dollar. Since then and up to 30 June 2009 the Renminbi has appreciated by approximately [17.45]% against the US dollar. Should there be significant changes in the exchange rate of the US dollar against the Renminbi in the future, the Group’s financial condition and results of operations may be adversely affected.

### **The PRC legal system is not fully developed and has inherent uncertainties that may limit the legal protections available to the Group.**

The PRC legal system is based on written statutes and their legal interpretation by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會). Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

### **Payment of dividends by the Group is subject to restrictions under the applicable PRC law.**

Under the PRC law, dividends may be paid only out of distributable annual earnings. Distributable annual earnings means the after-tax profits of Fujian Wide Plus as determined under the PRC GAAP, less any accumulated losses brought down from previous years and any

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allocations to certain reserve funds (including the statutory reserve fund and the discretionary reserve fund) that Fujian Wide Plus is required to make. Any distributable annual earnings that are not distributed in a given year are retained and available for distribution in subsequent years.

### **Withholding tax on dividend income received from the PRC subsidiary of the Group.**

After confirmed with the PRC legal advisers to the Group, under the PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their sources within the PRC. It is unclear whether the dividends the Group pays with respect to the Shares would be treated as income derived from sources within the PRC and be subject to PRC tax. Pursuant to a tax treaty between the PRC and Hong Kong that became effective on 8 December 2006, a company incorporated in Hong Kong is subject to a withholding tax at the rate of 5% on dividends it receives from a company incorporated in the PRC if it holds 25% or more of the PRC company, or 10% if holds less than 25% of the PRC company. As Fujian Wide Plus is the wholly owned subsidiary of Wide Plus High Precision, a company incorporated in Hong Kong, income received from Fujian Wide Plus is subject to a 5% withholding tax. If the Group is required under the PRC Enterprise Income Tax Law to withhold PRC income tax on the Group’s dividends payable to the Group’s foreign Shareholders, the value of their investment in the Shares may be materially and adversely affected.

### **The Group may not be able to continue to enjoy its current preferential tax treatment.**

On 16 March 2007, the National People’s Congress promulgated the new Corporate Income Tax Law (the “New CIT Law”), under which China will adopt a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoke the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. Fujian Wide Plus was exempted from corporate income tax for the two years ended 31 December 2005 and is currently enjoying a 50% reduction for the three years ended 31 December 2008. Fujian Wide Plus was accredited as a hi-tech enterprise in December 2008. Hence, it was granted the tax benefit of reducing corporate income tax rate to 15% for the two years ending 31 December 2010. Thereafter, the Group may not be entitled to any preferential tax treatment unless it is entitled to other preferential tax treatment under the New CIT Law. In such case, it may have an adverse effect on the Group’s financial results. Moreover, the Group’s historical financial results may not be indicative of its financial results for future years after expiration of the tax benefits currently available to the Group.

There can be no assurance that the New CIT Law, its application or its interpretation will not continue to change; in which case the effective income tax rate of the Group’s PRC subsidiaries may increase significantly.

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**It may be difficult to effect service of process on, or to enforce judgments against, the directors or the Company’s senior management who reside in the PRC in connection with disputes brought in courts outside the PRC.**

Some of the Directors and senior management of the Company reside in the PRC and a significant majority of the Group’s assets, and the assets of such persons, are located in the PRC. Accordingly, it may be difficult to effect service or process on, or to enforce any judgment against, the Group or such persons, in respect to litigation brought in courts outside the PRC.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in the United States, the United Kingdom, Japan, the Cayman Islands and most of other western countries. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provisions may be difficult or even impossible. In addition, there is substantial doubt as to the enforceability in original actions brought in the PRC of actions predicated on the laws of Hong Kong or the US or most of other western countries.

**Acts of God, acts of war and epidemics which are beyond the Group’s control may cause damage, loss or disruption to the Group’s business.**

The Group’s business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond the Group’s control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. Further, the Group may be unable to insure against certain types of losses, including losses caused by earthquakes, typhoons, floods, wars and riots. The Group’s business, operating results and financial condition may be adversely affected in a material respect if such natural disasters occur.

Epidemics threaten people’s lives and may adversely affect their livelihoods as well as living and consumption patterns. For example, the outbreak of severe acute respiratory syndrome or SARS, in 2003 and the outbreak of avian flu in 2004 in Asia had an adverse impact on the economy of the PRC and other parts of Asia. The occurrence of an epidemic is beyond the Group’s control and there is no assurance that such outbreak will not happen again. Any epidemic occurring in areas in which the Group operates, or even in areas in which the Group does not operate, may adversely affect the Group’s business, operating results and financial condition in a material respect.

Acts of war and terrorist attacks may cause damage to the Group’s property or personnel or disrupt its facilities, its operations, its distribution channels or the markets into which it sells its products, any of which could materially affect the Group’s sales, cost of sales, overall operating results and financial condition. The potential for war or terrorists attacks may also cause uncertainty and cause the Group’s business to suffer in ways that the Directors cannot currently predict.

**Dividends on the Shares may be subject to PRC income taxes.**

Under the Law of the People’s Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅法), the Group may in the future be recognized as a PRC tax resident enterprise by the PRC taxation authorities, the dividends on the Shares payable to foreign Shareholders may be regarded as income from “sources within the PRC” and therefore become subject to a 10% withholding income tax. If the Group is required under the People’s Republic of China on

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Enterprise Income Tax (中華人民共和國企業所得稅法) to withhold PRC income tax on dividends on the Shares payable to foreign Shareholders, the value of our foreign Shareholders' investment in the Shares may be materially and adversely affected.



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## DIRECTORS AND PARTIES INVOLVED

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<b>Executive Directors</b>		
Mr. Wong Fun Chung	B3105, Fortress Metro Tower, 238 King’s Road, Hong Kong	Chinese
Mr. Zou Chong	Unit 502, Block 4, Zuo Hai Hua Yuan, Gu Lou District, Fuzhou City, Fujian Province, the PRC	Chinese
Mr. Su Fang Zhong	Unit 302, Block 4, Zuo Hai Hua Yuan, No. 8 Tai Hou Road, Gu Lou District, Fuzhou City, Fujian Province, the PRC	Chinese
Mr. Cheung Chuen	Unit 21B, Wing Ying Building, 263 Kwun Tong Road, Kowloon, Hong Kong	Chinese
<b>Independent Non-executive Directors</b>		
Dr. Hu Guo Qing	Room 324, 29/F, School of Mechanical & Automotive Engineering, South China University of Technology, No. 381 Wu Shan Road, Guangzhou City, the PRC	Chinese
Ms. Ji Qin Zhi	No. 121, Block 5, Qi He Building, Dong Cheng District, Beijing City, the PRC	Chinese
Mr. Chan Yuk Hiu Taylor	Flat G, 18/F., Rich View Terrace, 26 Square Street, Central, Hong Kong	Chinese

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## DIRECTORS AND PARTIES INVOLVED

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### OTHER PARTIES INVOLVED

**Reporting accountants**

KPMG  
8th Floor, Prince’s Building,  
10 Chater Road,  
Central,  
Hong Kong

**Legal advisers to the Group**

*as to Hong Kong laws:*  
Fred Kan & Co  
Suite 3104–7, 31/F, Central Plaza,  
18 Harbour Road,  
Hong Kong

*as to PRC laws:*  
Dacheng Law Offices  
12th Floor, Guohua Plaza,  
No 3 Dongzhimen South Avenue,  
Beijing, 100007,  
the PRC

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

**Property valuer**

Jones Lang LaSalle Sallmanns Limited  
22/F., Siu On Centre,  
188 Lockhart Road,  
Wanchai,  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands
<b>Principal place of business in China</b>	No. 1 Cha Shan Road, Mawei Hi-Tech Development Zone, Fuzhou 350015, the PRC
<b>Headquarters and principal place of business in Hong Kong</b>	Room 2805, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong
<b>Company’s website</b>	<a href="http://www.chpag.net">www.chpag.net</a> (information contained in this website does not form part of this document)
<b>Company secretary</b>	Mr. Cheung Chuen, <i>CPA, AICPA</i>
<b>Authorised representatives (for the purpose of the Listing Rules)</b>	Mr. Cheung Chuen Unit 21B, Wing Ying Building, 263 Kwun Tong Road, Kowloon, Hong Kong  Mr. Wong Fun Chung B3105, Fortress Metro Tower, 238 King’s Road, Hong Kong
<b>Audit committee</b>	Mr. Chan Yuk Hiu Taylor ( <i>Chairman</i> ) Ms. Ji Qin Zhi Dr. Hu Guo Qing
<b>Remuneration committee</b>	Mr. Chan Yuk Hiu Taylor ( <i>Chairman</i> ) Ms. Ji Qin Zhi Dr. Hu Guo Qing
<b>Nomination committee</b>	Mr. Chan Yuk Hiu Taylor ( <i>Chairman</i> ) Ms. Ji Qin Zhi Dr. Hu Guo Qing

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## CORPORATE INFORMATION

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### Principal bankers

Industrial and Commercial Bank of China  
Fuzhou Mawei Branch,  
24 Junzhu Road, Mawei, Fuzhou,  
Fujian,  
the PRC

China CITIC Bank  
Fuzhou Liuyi Branch,  
171 Liuyi Road, Fuzhou,  
Fujian,  
the PRC

Bank of Communications Co., Ltd.  
Fuzhou Branch,  
116 Hudong Road, Fuzhou,  
Fujian,  
the PRC

Xiamen International Bank  
Fuzhou Branch,  
162 Wu Yi Road North, Fuzhou,  
Fujian,  
the PRC

China Merchants Bank  
Fuzhou Branch,  
[●],  
Fujian,  
the PRC

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## INDUSTRY OVERVIEW

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*Certain of the information and statistics set out in this Industry Overview have been extracted from various official public sources. Reasonable care has been exercised by the Directors in extracting and repeating such information and statistics. No independent verification has been carried out on such information and statistics. The Company, [●], the [●], their respective directors and advisers or any other party involved in the [●] make no representation as to the accuracy of such information and statistics, which may not be consistent with each other or with other information. The information and statistics set out in this section may not be consistent with other information compiled by other official sources within or outside the PRC or Hong Kong.*

### INTRODUCTION

Industrial automation instruments are used to monitor and control industrial production processes and are used in many different industries including aerospace, mining, power generation, oil, gas and petrochemical, metallurgy, food and pharmaceutical. The Group produces a range of high precision industrial automation instrument and technology products, which are classified by function into three categories (i) detector; (ii) indicator; and (iii) controller. The middle to high-end market segments in which the Group targets is oligopolistic in nature.

The horological instruments manufactured by the Group are sold to quartz watch manufacturers to be assembled into watches. The Group manufactures three major types of horological instruments, namely, two-hand, three-hand and calendar horological instruments. The Quartz watch movements industry in which the Group competes is also oligopolistic in nature.

According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, the instrument industry is classified into 4 categories based on target end-user base. The 4 categories are (i) automation instruments & systems; (ii) scientific testing instruments; (iii) specialty instruments; and (iv) instrument materials and components. Automation instruments and systems account for about half of the total instrument industry sales revenues, while scientific testing instruments account for about a quarter.

According to the National Standard of the Classifications and Codes of National Economy Industries (GB/T4754-2002) (《國民經濟行業分類》國家標準 (GB/T4754-2002)), industrial automation instruments and horological instruments and timer are both classified in the instruments industry (儀器儀錶行業).

### THE PRC ECONOMY

According to the National Bureau of Statistics of China, the PRC economy has grown at an average GDP growth rate of approximately 16% from 1985 to 2008. In particular, this rapid economic growth is reaffirmed in 2008, when China experienced an annual GDP of 9% despite the global economy downturn.

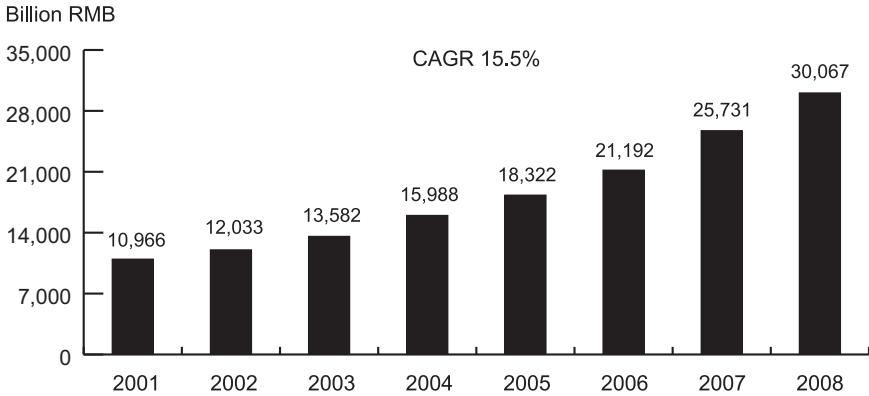
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## INDUSTRY OVERVIEW

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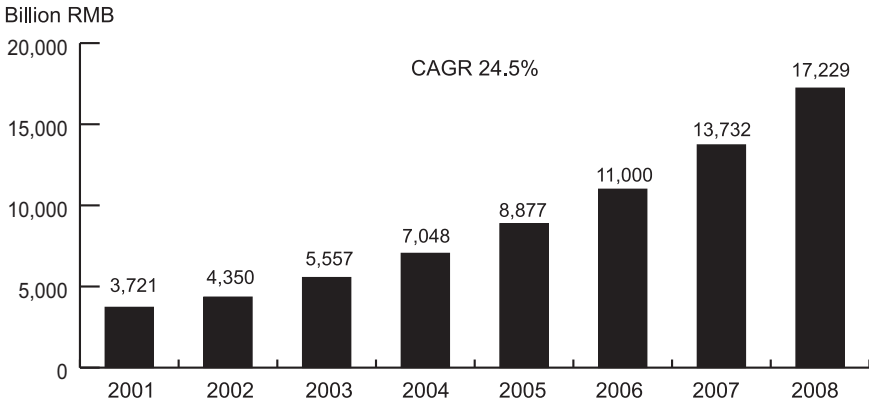
### China GDP during 2001–2008



Source: National Bureau of Statistics of China

One of the key economic drivers of the strong economic growth in the PRC is fixed asset investment. Fixed asset investment in China has grown from RMB3,721 billion in 2001 to RMB17,229 billion in 2008, representing a compound annual growth rate of 24.5%, making the PRC one of the countries with the highest growth rate of fixed asset investment in the world.

### China FAI (Fixed Asset Investment) during 2001–2008



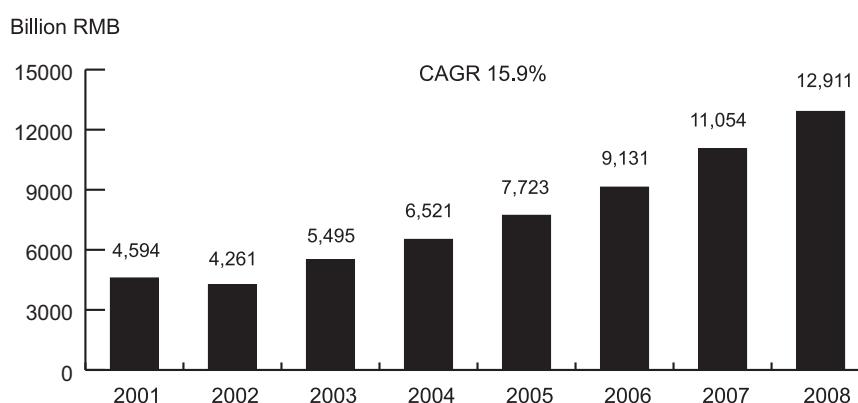
Source: National Bureau of Statistics of China

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## INDUSTRY OVERVIEW

Another key drive of the strong economic growth in the PRC is industrial development. Industrial value added in China has grown from RMB4,594 billion in 2001 to RMB12,911 billion in 2008, representing a compound annual growth rate of 15.9%.

### China Industrial Value Added during 2001–2008



Source: National Bureau of Statistics of China

The Directors believe the continued growth in fixed asset investment and industrial development is expected to increase the rate of the construction of new and the replacement of existing production facilities, both of which require large quantities of industrial automation instrument and technology products.

### GROWTH OF THE INDUSTRIAL AUTOMATION INSTRUMENT INDUSTRY

As illustrated in the following table, the Chinese instrument industry’s total sales have grown at CAGR of 36.2% for the four years ended 31 December 2007.

Billion (RMB)	2004	2005	2006	2007
Gross industrial output value	123.7	177.7	233.0	307.8
Sales revenue	118.9	172.6	220.7	300.5

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008.

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## INDUSTRY OVERVIEW

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The table below shows the breakdown of the 2007 production values of various instrument industry segments in the PRC.

<b>The PRC Instrument Industry Production Value in 2007</b>	<i>(RMB millions)</i>
Industrial automation instruments	78,384
Horological Instruments	20,911
Electronic chain instruments	12,571
Supply chain instruments	39,266
Optics instruments	51,905
Medical and related instruments	20,883
Vehicle and other measuring instruments	14,230
Others	<u>69,615</u>
<b>TOTAL</b>	<b><u><u>307,765</u></u></b>

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008.

### Characteristics of China’s Instrument Industry

According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, there are only 22 enterprises, out of 3,954 enterprises in total, in the PRC instrument industry with sales of over RMB300 million in 2007. Overall for the PRC instruments industry, domestic enterprises have generally only reached standards which are comparable to mid-1980s international levels.

In an industry with a small number of large enterprises and a large number of small enterprises, the higher and lower end market segments for the industrial automation instrument market in China have very different industry characteristics and competitive dynamics. With the exception of limited involvements by some domestic enterprises, the middle to high-end segment of the PRC market with high stability, reliability and precision requirements is oligopolistic in nature and almost exclusively reliant on imports or products manufactured by foreign invested enterprises (三資企業) such as the Group, with a relatively limited number of international brands commanding dominant market positions. On the contrary, the middle to low-end segment of the PRC market is highly fragmented and dominated mainly by domestic enterprises, characterized by intense competition amongst a large number of small and weak manufacturers with low research and development and product innovation capabilities and whose product standards are generally only comparable to mid-1980s international standard levels.

### Growth Forecast

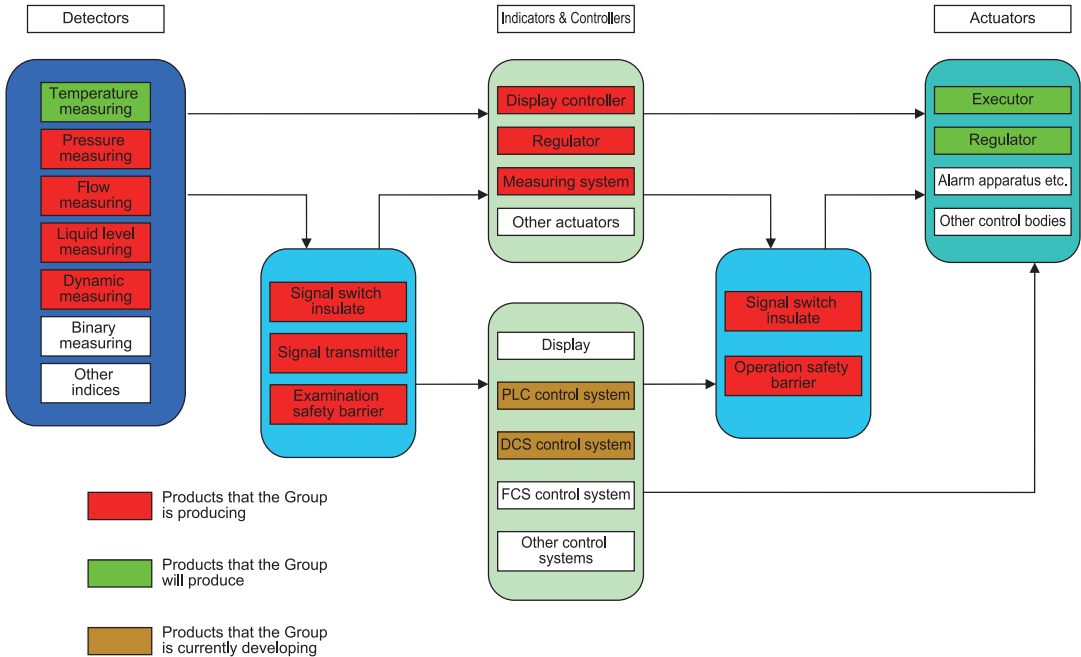
During the “Eleventh Five Year Plan (十一五規劃)” Period, industrial automation instruments and control systems are expected to grow at an annual rate of 25%, according to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008. The PRC demands will rank among the top three globally for core products such as DCS, PLC, transmitters, flow meters, control valves and electronics actuators.



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**INDUSTRY OVERVIEW**

The products in the industrial automation instruments and control systems sector can be categorized into detectors, indicators & controllers, and actuators. The diagram below illustrates how a control system is linked with the industrial automation instrument and technology products of the Group.



The Directors believe the large scale of this market has enormous potential and as shown in the table above, there are various product types which the Group will produce or are currently under development.

**MAJOR HIGH PRECISION INDUSTRIAL AUTOMATION INSTRUMENT AND TECHNOLOGY PRODUCTS RELATED TO THE GROUP’S BUSINESS**

**Indicators and Controllers**

The annual production output of indicators and controllers in China in 2006 was approximately 3 to 3.5 million units in aggregate. Indicators and controllers are mainly used in oil pressure equipment, machine tools, plastic injection moulding machines, domestic ovens, industrial ovens, environmental testing systems, industrial electric furnaces, thermal treatment equipment, medical equipment, pharmaceutical production equipment, tobacco ovens, water heaters and furnaces. The technical capabilities of the PRC based manufacturers can meet the requirements of end-users in China and is also considered competitive in the international markets.

The Group was the industry leader in the PRC indicator and controller markets in terms of sales volume in 2006.

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## INDUSTRY OVERVIEW

### Market Share of Major Indicator and Controller Manufacturers in 2006

	Market (’000 units/ sets)	Enterprise Type
1. <b>The Group</b> <sup>(Note 1)</sup>	300	Hong Kong
2. RKC	150	Japan
3. OMRON	120	Japan
4. Xiamen Yudian Automation Technology Co., Ltd	80	China
4. Fujian Shunchang Hongrun Precision Instrument Co., Ltd	80	China
4. Sichuan Instrument Complex Co., Ltd. Control Meter Branch	80	China
5. Autonics Electronic (Jiaying) Corporation	50	South Korea
6. Shimaden	30	Japan
6. Shanghai Dahua Chino Instrument Co., Ltd.	30	Joint Venture
7. Others	2,200–2,700	
Total	3,000–3,500	

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

Note 1: The above ranking is attributed to Wide Plus.

### Pressure/Differential Pressure Transmitter Products

Pressure transmitters convert changes in liquid, gas or vapour pressures into standardized signals.

In 2006, the total production of pressure transmitters in the PRC reached approximately 560,000 units. As illustrated in the table below, the pressure transmitter market is characterized by a small number of large and a large number of small manufacturers.

The Group was the PRC-based industry leader for the PRC pressure transmitter market based on sales volume in 2006.

### Market Share of Major Pressure Transmitter Manufacturers in 2006

	Market (units)	Enterprise Type
1. Emerson	145,000	Joint Venture
2. Yokogawa	120,000	Joint Venture
3. <b>The Group</b> <sup>(Note 1)</sup>	<b>45,000</b>	<b>Hong Kong</b>
4. Chongqing Wecan	38,000	China
5. E + H	30,000	Joint Venture
6. Others	<u>182,000</u>	
Total	<u><u>560,000</u></u>	

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

Note 1: The above ranking is attributed to Wide Plus.

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## INDUSTRY OVERVIEW

The industrial application of pressure transmitters in China is also relatively concentrated, with four industries (i.e. chemical, electricity, oil and petrochemical industries) contributing to more than 75% of the market.

### Pressure Transmitter Market in China (by Industry)

Industry	<i>(Units)</i>
Chemical	156,000
Petrochemical	116,000
Electricity	96,000
Metallurgy	60,000
Oil & natural gas	39,000
Papermaking	16,000
Urban	12,000
Construction	10,000
Food and beverages	4,000
Others	<u>51,000</u>
<b>Total</b>	<b><u><u>560,000</u></u></b>

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

For the total production of pressure transmitters in China of approximately 560,000 units, nearly 48% of the pressure transmitters are used for measuring pressure, and more than 51% of the pressure transmitters are used to measure differential pressure (the latter is called differential pressure transmitter).

In general, the level of precision required for differential pressure transmitters should be higher than that of pressure transmitters. In measuring differential pressure, the level of precision required for measuring liquid level is higher than that of measuring the flow rate of gas or liquids.

### Market Size of Pressure Transmitters in 2006

Type of application	Market size	
	<i>Units</i>	<i>Percentage</i>
Pressure	270,000	48.2%
Flow	150,000	26.8%
Liquid	<u>140,000</u>	<u>25.0%</u>
<b>Total</b>	<b><u><u>560,000</u></u></b>	<b><u><u>100.0%</u></u></b>

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

Emerson, Yokogawa, Foxboro, Fuji and the Group are considered comprehensive automation instrument manufacturers providing on-site instrument products as well as other automation products in the area of workflow control, while the other enterprises focus more on on-site instrument products.

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## INDUSTRY OVERVIEW

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As at the end of 2007, the Group has passed the certification (e.g. CE Mark) that is necessary to enter the European Union market, in particular the ATEX anti-explosion certification of the European Union.

Certain foreign manufacturers in China have set up joint ventures with domestic manufactures in China. Yokogawa Electric Corporation and Chongqing Sichuan Instruments Co. Ltd. jointly established Chongqing Yokogawa Sichuan Instruments Co. Ltd., which is engaged in the production and sale of pressure transmitter. Emerson and Far East Instrument Co., Ltd. (北京遠東儀錶有限公司) jointly established Beijing Rosemount Far East Instrument Co., Ltd. (北京遠東羅斯蒙特儀錶有限公司) to produce pressure transmitters. The instrument department of ABB set up a new production line in Shanghai. And in 2005, E+H established a production base of instruments in Suzhou to engage in the production of various on-site instruments, including pressure transmitters.

For industrial end-users, as a key part in their production process control, the stability of the industrial automation instruments used in such production process affects not only the production process but also the end-users’ own reputation. Hence, stability and reliability of instrument products are the most important selection criteria for end-users.

### End-users Product Selection Priorities

Selection Criteria	Priority
Stability	1
Failure rate	2
Ease of installation	3
After-sales services	4
Degree of Precision	5
Ease of use	6
Delivery time	7
Price	8

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

### Electronics Actuator and Control Valve

The market for electronics actuator is historically dominated by product manufactured by foreign manufacturers. Domestic manufacturers in China have started to gain market share in the high-end market. In 2006, annual sales of electronics actuators was approximately RMB1.5 billion in the PRC, of which sales of products manufactured by PRC manufacturers was approximately RMB700 million.

In 2006, the total sales of control valves in China were approximately RMB4.4 billion, of which approximately RMB2 billion consists of sales of control valves produced by domestic Chinese manufacturers.

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## INDUSTRY OVERVIEW

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### HOROLOGICAL INSTRUMENT INDUSTRY

The global quartz watch movement industry is an oligopoly market dominated by a relatively small number of market players.

According to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009, over the past decade the annual global output of watches has been stable at approximately 1.2 billion to 1.3 billion pieces, with quartz watches accounting for approximately 1.1 billion to 1.2 billion pieces, and low-end quartz watches accounting for an estimated 800 million to 900 million pieces.

The high-end watch market is characterized by branded, multi-functional watches. This segment of the global watch industry is dominated by Swiss manufacturers, with limited market shares by other European and Japanese producers. The high-end watch movements produced by watch manufacturers are generally retained exclusively for own use and generally not sold to external customers.

The mid-end watch market is characterized by watches with higher technology contents such as multi-functional quartz watches (多功能石英錶), radio-controlled watches (電波錶) and IT watches (信息錶). Quartz watch movements catering to this market segment are dominated by Seiko and Citizen.

The Group focuses on the low-end watch segment, which is characterized by fashion accessory watches, toy watches and gift watches. With annual output of 800 to 900 million pieces, low-end watches account for approximately 70% of the total global watch output by volume. The quartz watch movements in this segment are dominated by Seiko, Citizen and three other leading Chinese manufacturers. The three leading Chinese manufacturers, along with eight other smaller Chinese manufacturers, collectively produced approximately 400 million quartz watch movements per year, with the balance produced mainly by the Seiko and Citizen.

Unlike the global watch industry where there are numerous watch assemblers and manufacturers, the global quartz watch movements industry is an oligopoly dominated by a relatively small number of manufacturers. The Directors believe the entry barriers are high as (i) quartz watch movements are high precision instruments with high technical and production expertise requirements, (ii) quartz watch movement designs, including the designs of the raw materials and components used, are generally proprietary to the various manufacturers, and (iii) various high precision equipments and machineries used in the production processes are also proprietary to various manufacturers and are generally not available for purchase commercially.

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## INDUSTRY OVERVIEW

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In recent years, large shifts have been seen in the strategies of the Swiss and Japanese watch producers. The largest Swiss watch producer, Swatch, has since 2006 stopped overseas production of low-end quartz watch movements. Citizen in recent years has altered its strategy to de-emphasize focus on the low-end market segment to instead focus on the higher-end market segment. Seiko, the global industry leader, has turned its focus on the higher-end segments of the quartz watch movement market. According to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009, at the end of 2008, Seiko, the largest global low-end quartz watch movement manufacturer, with its principal manufacturing lines in Singapore, Malaysia have ceased production and left the low-end quartz watch movement market.

The PRC quartz watch movement industry has been growing steadily in recent years with annual production volumes reaching nearly 400 million quartz watch movements in [2008]. Behind only Japan, the PRC is now the second largest low-end watch movement manufacturing base in the world. The significant price advantage Chinese manufacturers have over their Japanese counterparts has resulted in Chinese manufacturers increasingly gaining market shares from the Japanese in the low-end segment, with the mid-end segment representing substantial longer term opportunities for Chinese manufacturers that can upgrade their product qualities.

According to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009, the Group is one of the three PRC quartz watch movement industry leaders in 2008 in terms of production volume, and the only domestic enterprise being acknowledged to lead industry innovations with products that are of international quality standards.

## GOVERNMENT POLICY AND REGULATION

According to the Opinions of the State Council on Accelerating the Invigoration of Capital Goods and Equipment Industry (“State Council Opinions”) (國務院關於加快振興裝備製造業的若干意見) dated 13 February 2006, the strong invigoration of the capital goods and equipments industry is an important directive for the Chinese government. The capital goods and equipments industry, which industrial automation instruments is included, is deemed a pillar industry that is crucial towards the developments of the overall Chinese economy and national defense infrastructure.

The State Council Opinions outlines various policy initiating to invigorate the capital goods and equipments industry, it views as having, amongst other problems, (i) weak technical and innovation abilities, (ii) strong reliance on foreigners, (iii) unreasonable product or output mix, and (iv) weak competitiveness internationally. Various detailed policy directions were highlighted, including the following:

1. Using policy directives to assist in the development of a group of large, relatively competitive domestic enterprises with strong and proprietary expertise in manufacturing know-how in order to satisfy the demands for the Chinese energy, transportation, national defense and other sectors;
2. The development of domestic automation control and systems and critical high precision detection and testing instruments;
3. Use major national projects as a foundation and basis for promoting the growth of domestic capital goods and equipment enterprises;

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## **INDUSTRY OVERVIEW**

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4. Strengthen policy supports and encourage governments at all levels to enhance supports for educational institutions and initiatives to help develop and foster the necessary talent pool and foster closer collaborations with enterprises;
5. Revise tax policies when appropriate, including import tax exemptions or rebates for key components and materials used by domestic enterprises for the production of capital goods and equipments and cancellation or gradual cancellation of tax exempt status for imported finished capital goods and equipments;
6. Encourage procurements of domestically produced capital goods and equipments, using preferential procurement policies for domestically produced products in major national projects as showcase for domestic enterprises; and
7. Strengthen financial supports, including setting up dedicated funds for supporting initiatives that can help upgrade the industry and enhancing R&D tax incentives towards investments in areas such automation control and innovation technologies.

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## THE LAWS AND REGULATIONS OF THE PRC

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*The laws, regulations, rules and policies applicable to the industrial automation instrument and technology industry include “Measures for Supervision and Administration of License for Manufacturing and Repairing Instruments of Measurement”, “Implementation Rules for the License for Production of Explosion-proof Electrical Products”, “Development Guidelines for Environment Inspection Instruments”, “Technical Specifications for Survey of Urban Underground Pipelines”, and “Outlines of the People’s Republic of China’s Policies on Water Saving Technology”.*

*Other laws, regulations, rules and policies to which the Group is subject to include “Environmental Protection Law of the PRC”, “Atmospheric Pollution Prevention Law”, “Water Pollution Prevention Law” and “Noise Pollution Prevention Law”.*

*The relevant provision of these laws, regulations, rules and policies applicable to the Group are set out below.*

### REGULATIONS IN RESPECT OF INDUSTRY PRACTICES

#### **Measures for Supervision and Administration of License for Manufacturing and Repairing Instruments of Measurement**

Measures For Supervision and Administration of License For Manufacturing and Repairing Instruments of Measurement (the “Measures”) were promulgated by the Decree No. 2 of the State Bureau of Quality and Technical Supervision on [29 December 2007]. The Measures stipulate that any units or individually owned businesses that manufacture instruments of measurement for the purposes of sales or commence repairing operation for instruments of measurement must apply for a License for Manufacturing Instruments of Measurement or a License for Repairing Instruments of Measurement, respectively. The License for Manufacturing Instruments of Measurement and the License for Repairing Instruments of Measurement shall both be valid for three years. The Measures shall be applicable to the instruments of measurement listed in the Catalogue of the People’s Republic of China Concerning Instruments of Measurement Controlled by Law. The Measures further stipulate that the Certificate of Model Approval or Qualified Certificate for Sample Instrument must be obtained by the manufacturing enterprises before applying for the License for Manufacturing Instruments of Measurement.

The National Bureau of Measurement published the Catalogue of the People’s Republic of China Concerning Instruments of Measurement Controlled by Law on 10 July 1987. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC published (2005 No. 145) the Catalogue of the People’s Republic of China Concerning Instruments of Measurement Controlled by Law – Model Approval Section, which has come into effect as of 1 May 2006. Pursuant to the above stipulation, products of the Company, such as “digital display instrument,” “multi-channel compensation flow meter”, “pressure transmitter,” and “pressure/differential pressure transmitter” are under the above scope of administration.



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## THE LAWS AND REGULATIONS OF THE PRC

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### **Implementation Rules for the License for Production of Explosion-proof Electrical Products**

National Office for Production Licenses for Industrial Products, by Decree Qu Xu Ban [2006] No. 94, promulgated the Implementation Rules for the License for Production of Explosion-proof Electrical Products (the “Implementation Rules”), which came into effect on 20 December 2006. The Implementation Rules set out in details the industry organisation responsible for centralised administration of the Production License for Explosion-proof Electrical Products (the “Production License”) including, the basic requirements, approval procedures, application and reception for an enterprise to obtain the Production License, spot tests conducted on the enterprise, products sampling and inspection, examination and approval and the issuance of the License for Production, production approval and examination requirements for group companies, product standards and relevant standards for enterprises producing explosion-proof electrical products and others.

Pursuant to the Schedule 1 of the Implementation Rules (Product Unit Classification Table for the Production License for Explosion-proof Electrical Products), the products (among others) manufactured by the Company are under the administration scope of the Implementation Rules include, thermal isolated safety barrier, digital output isolated barrier, digital input isolated barrier and detection point isolated barrier.

### **Development Guidelines for Environment Inspection Instruments**

Development Guidelines for Environment Inspection Instruments (the “Guidelines”) was promulgated by State Environmental Protection Administration of China by Decree Huan Fa (2000) No. 23 and has been implemented on [8 December 2000]. The Guidelines state the following policies and measures for the development of environment supervision instruments:

1. The development of environmental supervision instruments and their facilities are critical to achieve the modernisation of supervision technology and to provide accurate information for environmental protection and sustainable economic development, and therefore the State encourages the research, development and production of the supervision instruments and facilities;
2. Specifying the needs and directions of environmental supervision and regulating the development of environmental supervision instruments by strengthening the general guidance for the development and production of environmental supervision instruments, stepping up the investigation and research on the development trend of environmental supervision technology and supervision instruments, and timely establishment of the development plans and technology policies for environmental supervision instrument;

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## THE LAWS AND REGULATIONS OF THE PRC

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3. Strengthening the standardisation of environmental supervision instruments. Environmental supervision instruments are the bases for environmental supervision work. In order to ensure the data derived from environment supervision are, accurate and comparable, the formulation of standards for environmental supervision instruments shall be enhanced. The standards for environmental supervision shall be classified into a system of environment protection standards in order to accord with the formulation of environmental supervision regulations and the methodology of environment analysis and supervision. As a result, the technological advancement of environment supervision instruments can be achieved by the establishment of unified standards;
4. Conducting inspection on the technology levels and quality status of environmental supervision instruments by strengthening the supervision and management of environmental supervision instruments and establishing a number of authoritarian technology intermediary institutions with strong technology foundation and announce the results to the public. The “access” system shall be implemented on the specialized instruments for environment supervision used for the purposes of law enforcement supervision under the environment supervision;
5. Strengthening the technology innovation in respect of environmental supervision instrument, increasing the investment in scientific research in connection with supervision technology urgently needed for environment protection works, and including the development of environment supervision technology into the key areas of scientific research for environment. Accelerating the commercialisation of environmental supervision instruments and technology enhancement by capitalizing on various supporting policies of the State;
6. Promoting the integration of scientific research and production of supervision instruments, encouraging the technology collaboration between enterprises manufacturing environmental supervision instruments, universities and scientific research institutes through different channels, and accelerating the transformation of achievements of environmental supervision technology;
7. Applying the strategies of introduction, comprehension, adoption and localisation. With regard to supervision instruments of which the production technology in the PRC is backward while foreign countries already have advanced and complete set of technology, the State encourages the introduction important technology from foreign countries, establishment of joint production and gradual localisation;
8. Achieving production of mass-scale and economies of scale as well as setting up a group of key enterprises of supervision instrument production by leveraging the market control measures to encourage the re-integration in the environmental supervision instrument production industry with a view to gradually improve on the issues of weak technology, diversified investment, low-level duplication and low market competitiveness surrounding the production of supervision instruments; and

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## THE LAWS AND REGULATIONS OF THE PRC

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9. Formulating relevant regulations in respect of environmental supervision according to the construction plans of environment supervision capabilities to gradually setting up regional automated network systems for supervising environment quality and sources of pollution in certain major cities. Encouraging the establishment of automated network systems for environmental supervision through preparation of model projects which implement the construction of automated network for environmental supervision.

### **Technical Specifications for Survey of Urban Underground Pipelines**

The Technical Specifications for Survey of Urban Underground Pipelines promulgated for implementation by Decrees No. 152 by the Ministry of Construction on 3 June 2003 sets out the professional standards (CJJ61-2003) for underground pipelines survey, and which came into effect on 1 October 2003, and Article Nos. 306, 3012, 462, 464, 561(1), A01, A04, A05, A06, A07 and A09 are mandatory provisions which must be strictly implemented. The former Technical Specifications for Survey of Urban Underground Pipelines was repealed at the same time.

### **Outlines of the People’s Republic of China’s Policies on Water Saving Technology**

In order to promote the development and application of water saving technology, enhance the efficiency and sustainability of water utilisation, National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Water Resources, the Ministry of Construction and the Ministry of Agriculture formulated the Outlines of the the People’s Republic of China’s Policies on Water Saving Technology (the “Outlines”), which was promulgated and implemented on 21 April 2005.

The Outlines advocate the optimisation of control technology for water pressure, surface and volume in connection with industrial water supply and the development of swift and practical leakage inspection equipments, instruments and technology for industrial pipeline networks and facilities.

In light of existing serious water leakage of urban water pipeline networks, the Outlines advocate the active application of leakage inspection and prevention technology on urban water supply network, promote the installation and accurate position of leakage inspection technology, and optimise leakage inspection methodology. The water pipeline networks buried under ground shall be inspected primarily using passive leakage inspection method while water pipeline networks under urban roads shall be inspected mainly using the active leakage inspection method. The Outlines encourage building water supply networks using GIS and GPS system and to apply the general survey system technology for regional leakage.

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### LAWS AND REGULATIONS FOR THE PROTECTION OF SOCIAL PUBLIC INTERESTS

#### Environmental Protection Law

The Environmental Protection Law of the People’s Republic of China was adopted and promulgated at the Eleventh Meeting of the Standing Committee of the Seventh National People’s Congress of the People’s Republic of China on 26 December 1989 which came into effect on the same day.

The Environmental Protection Law of the People’s Republic of China requires the units that cause environmental pollution and other public hazard to introduce environmental protection into their operation plans and to establish an accountability system for environmental protection, and must adopt effective measures to prevent and control the pollution and harms that caused to the environment by exhaust gas, waste water, waste residues, dust, odours, radioactive substances, noise, vibration and electromagnetic radiation generated during production, and other activities.

#### Atmospheric Pollution Prevention Law

The Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution revised and adopted at the 15th Meeting of the Standing Committee of the Ninth National People’s Congress of the People’s Republic of China on 29 April 2000 which was implemented on 1 September 2000.

According to the law, the projects under establishment, expansion and reconstruction that discharge atmospheric pollutants have to comply with the state environmental protection administrative requirements relating to construction projects. Enterprises that discharge polluted gas should report to the environmental protection administrative competent division in the place where the enterprises are located for their equipments that discharge pollutants, the facilities that dispose pollutants, and the type, amount and concentration of the pollutants under their ordinary operation. Enterprises are also required to provide the related technology information about the prevention and control of atmospheric pollution. The concentration of the pollutants must not exceed the state and local standard of discharge.

Enterprises should also firstly apply a clean production process that has a high utilisation rate of energy and low pollutant discharge, and reduce the production of pollutants. Enterprises that have breached the above requirements, may be ordered to cease their illegal activities and rectify within a limited period, be warned, be imposed a penalty and be ordered to cease their businesses by the environmental protection administrative competent division.

#### Water Pollution Prevention Law

The Law of the People’s Republic of China on Prevention and Control of Water Pollution adopted at the Fifth Meeting of the Standing committee of the Sixth National People’s Congress of the People’s Republic of China on 11 May 1984 was revised in accordance with the Decision on Revising the Law of the People’s Republic of China on Prevention and Control of Water Pollution adopted at 19th Meeting of the Standing Committee of the Eighth National People’s Congress of the People’s Republic of China on 15 May 1996.

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According to the law, the construction projects under establishment, expansion and reconstruction that discharge polluted water directly or indirectly have to comply with the state environmental protection administrative requirements relating to construction projects. The equipments used for preventing and controlling water pollution must be designed, constructed and operated with the main construction in the same time. Enterprises that discharge polluted water directly or indirectly should report and register with the environmental protection division in the place where the enterprises are located for their equipments that discharge pollutants, the facilities that dispose pollutants, and the type, amount and concentration of the pollutants under their ordinary operation in accordance with the requirements of the environmental protection division of the State Council. Enterprises are also required to provide the related technology information about the prevention and control of water pollution.

Enterprises that discharge polluted water have to pay the pollutant discharge fees according to the state requirements. Enterprises that discharge pollutants in excess of the state or local standard of pollutant discharge have to pay the pollutant discharge fee for the additional discharge in accordance with the state requirements. Enterprises should also apply clean production process that has a high utilisation rate of raw materials and low pollutant discharge. Enterprises should also reinforce the management and reduce the production of pollutants.

Enterprises that have breached the above requirements, may be ordered to cease their illegal activities and rectify within a limited period, be warned, be imposed a penalty and be ordered to cease their businesses by the environmental protection administrative competent division.

### **Noise Pollution Prevention Law**

The Law of the People’s Republic of China on Prevention and Control of Environmental Noise Pollution adopted and promulgated at the 20th Meeting of the Standing Committee of the Eighth National People’s Congress of the PRC on 29 October 1996 was implemented on 1 March 1997. This Law stipulates the supervision and management of the prevention and control of environmental noise pollution and industrial noise pollution, construction noise pollution, traffic noise pollution, social activities noise pollution and the relevant legal liability.

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The origin of the Group’s operation can be traced back to 1991 when the Group’s chairman, Mr. Wong co-founded Wide Plus in which Mr. Wong was interested as to 50% of its issued share capital and the remaining interest was owned by an Independent Third Party. Prior to the establishment of the Wide Plus, Mr. Wong has been working in the horological instrument industry for over 28 years. Wide Plus started its business in the manufacturing of timing instrument, quartz watch movements and related watch components, the areas in which Mr. Wong and other senior management had accumulated years of experience prior to the forming of the Wide Plus.

In July 1991, Fuzhou Shanglun was established by Wide Plus Investments in the PRC to engage in the design, development and manufacture of industrial automation instruments including electronic display and control instruments and its associated control system and software. In September 1991, Wide Plus Investments entered into a joint venture with Newtowner Development and other Independent Third Party to establish Fujian Electronic, which was engaged in the manufacture of consumer horological instruments. As Mr. Wong consolidated his control over Fujian Electronic and Fuzhou Shanglun, the business of Fuzhou Shanglun and Fujian Electronics were subsequently acquired by Wide Plus, a company which was then wholly-owned by Mr. Wong and his wife. Fuzhou Shanglun was acquired in June 2000 at a nominal consideration of HK\$1 which was determined with reference to its loss at the relevant time. The entire shareholdings of the joint venture parties in Fujian Electronic were also transferred to Wide Plus in March 2004 at a cash consideration of RMB300,000, of which it was determined with reference to the joint venture parties’ respective contributions to the equity capital of Fujian Electronic with agreed exchange rate of Renminbi to HK dollar adopted at the relevant time.

Since early 2000’s, industrial automation instruments and horological instruments have been the main products of the Group. With over ten years of industrious endeavours, the Group has developed and focused on the manufacturing of industrial automation instrument and horological instrument products including all-plastic pointer type quartz watch movements which have successfully relieved the PRC’s reliance on Japanese importers for the supply of similar products in the past.

With the establishment of the Group’s own production plant through Fujian Wide Plus in the Fuzhou Economic and Technological Development Zone (福州經濟技術開發區) in the PRC in 2003, the size and production scale of the Group have gradually been expanded.

Fujian Wide Plus was established in the PRC in January 2003 by Wide Plus. Fujian Wide Plus has been engaging in the business of the middle to high-end segments of the industrial automation instrument and horological instrument production and sale.

In 2004, the Group has become one of the PRC’s leading manufacturers of quartz watch movements with export destinations spanning the PRC, Hong Kong, Taiwan, India, Japan, Europe and the United States.

The Group has throughout the years begun the production of automated temperature, flow and indicating control instruments and the provision of relevant system design and software services.

The Group has become one of the PRC’s leading manufacturers of high precision industrial automation instrument and technology products since 2006. The Group’s instrument products are used in different industries including aerospace, oil and gas, petrochemical, power generation, mining and metallurgy, iron and steel, automotive, food and beverage, pharmaceutical, papermaking and machinery.

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The Group’s products were used in the fuel injection system in the launching of spacecrafts. In June 2004, the Chinese Jiuquan Satellite Launch Center issued a Certificate of Commendation to the Group in recognition of the stability and reliability of WP-series automated instruments which were used in the launching of “Shenzhou” Spacecrafts from 1999 to 2003.

In August 2009, the Group received a user certificate in recognition of the Group’s after sale service and technical support, also the reliability of WP-series automated instruments in relation to the launchings of “Shenzhou No.1” to “Shenzhou No.7” spacecrafts, including the recent personnel carrier spacecraft “Shenzhou No.7” launching mission.

Since the commencement of the Track Record Period, the Group underwent the Reorganisation and further reorganisation process as described in the sub-section headed “Reorganisation” and “Further Reorganisation and Investments by Standard Bank Plc and Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited” below.

### REORGANISATION

The Group has undergone the Reorganisation [●]. Pursuant to the Reorganisation, the following steps were carried out:

Pursuant to a conditional share subscription agreement in March 2007 entered into between Mr. Wong, Mr. Wong Sun Hoi, Mr. Ng Hiu King, Mr. Pang Chang Chi, Ms. He Yuzhu and Mr. Lin Hongxi, the parties thereto have conditionally agreed to subscribe shares in Wide Sincere Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability with respective shareholding of 56.02%, 9.24%, 6.35%, 5.39%, 17% and 6%.

In June 2007, pursuant to a conditional share transfer agreement entered into between Mr. Pang Chang Chi and Allied Basic Limited, Mr. Pang Chang Chi had agreed to transfer his entire interest in Wide Sincere Enterprises Limited to Allied Basic Limited which was beneficially owned by Ms. He Yuzhu.

In July 2007, Mr. Wong, Mr. Wong Sun Hoi, Mr. Ng Hiu King and Mr. Pang Chang Chi transferred their respective interests as to 72.75%, 12%, 8.25% and 7% in Wide Plus to Wide Sincere Enterprises Limited which was owned by Mr. Wong, Mr. Wong Sun Hoi, Mr. Ng Hiu King, Allied Basic Limited and Sunny Zone Limited, of which Sunny Zone Limited was beneficially owned by Mr. Lin Hongxi.

In September 2007, Mr. Lin Hongxi transferred his entire interest in Sunny Zone Limited to Silware Investments Limited, which is beneficially owned by Ms. Lam Yin Fong at the consideration of HK\$67,000,000 after arm’s length negotiation. In November 2007, Ms. He Yuzhu transferred part of her interest in Wide Sincere Enterprises Limited, being 6.5% in Wide Sincere Enterprises Limited, to Investidea Investments Limited, which is beneficially owned by Mr. Chan Lawrence Kwok at the consideration of HK\$120,000,000 after arm’s length negotiation.

In order to focus on the development of industrial automation instruments and more effectively utilize the resources of the Group, Fujian Electronics ceased its principal business of consumer horological instruments since 2003 and has remained dormant. While Fuzhou Shanglun, which was principally engaged in production of electronic display and control instruments with different application domains from the existing products of the Group, remained dormant during the Track Record Period after ceasing production in 2003. In August 2007, since Fujian Electronics and Fuzhou Shanglun had net liabilities at the time of disposal,

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Wide Plus disposed of its entire interest in Fujian Electronic and Fuzhou Shanglun to Independent Third Parties at nominal consideration of HK\$1 and they ceased to be part of the Group since August 2007.

On 29 November 2007, the Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each. One Share was allotted and issued to the subscriber, Codan Trust Company (Cayman) Limited, nil paid and Codan Trust Company (Cayman) Limited transferred to Mr. Wong such one Share, which was credited as fully paid at par in the manner mentioned hereinbelow. The Company has established a place of business in Hong Kong at Room 2805, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and was registered on 29 February 2008 as a non-Hong Kong company under Part XI of the Companies Ordinance, with Mr. Cheung Chuen and Mr. Wong appointed as the authorized representatives of the Company under section 333 of the Companies Ordinance for the acceptance of service of process and notices on behalf of the Company in Hong Kong. The address for service of process of the Company in Hong Kong is the same as its said principal place of business in Hong Kong.

On 11 December 2007, Wide Plus High Precision was incorporated in Hong Kong acting as the intermediate holding company of the Group. The authorised share capital of Wide Plus High Precision upon its incorporation was HK\$10,000 divided into 10,000 shares of HK\$1 each. One share of Wide Plus High Precision was allotted and issued to the subscriber, Gold Regal Development Limited, nil paid and Gold Regal Development Limited transferred to Mr. Wong such one share for cash at par. 9,999 shares of Wide Plus High Precision were allotted and issued for cash at par to the shareholders, namely Mr. Wong as to 5,601 shares, Mr. Wong Sun Hoi as to 924 shares, Mr. Ng Hiu King as to 635 shares, Allied Basic Limited as to 1,589, Investidea Investments Limited as to 650 shares and Sunny Zone Limited as to 600 shares (“Group Shareholders”).

On 7 March 2008, Wide Plus sold and Wide Plus High Precision purchased the entire equity interest in Fujian Wide Plus from Wide Plus at the consideration of Wide Plus High Precision assuming all the debt owed to Mr. Wong by Wide Plus. After the acquisition, Wide Plus High Precision owed to Mr. Wong the amount of debt previously owed to Mr. Wong by Wide Plus. The debt owed to Mr. Wong by Wide Plus High Precision was repaid on 31 March 2008. The equity transfer has been approved by the Economic Development Bureau of Fuzhou Economic and Technological Development Zone (福州經濟技術開發區經濟發展局).

On 3 April 2008, the Company acquired 10,000 shares of Wide Plus High Precision from the said Group Shareholders. As consideration for the acquisition, the Company (a) allotted and issued to the Group Shareholders, Mr. Wong as to 2,128,759 Shares, Mr. Wong Sun Hoi as to 351,120 Shares, Mr. Ng Hiu King as to 241,300 Shares, Allied Basic Limited as to 603,820 Shares, Investidea Investments Limited as to 247,000 Shares and Sunny Zone Limited as to 228,000 Shares, all credited as fully paid and (b) credited as fully paid at par the initial one Share held by Mr. Wong. After the acquisition, Wide Plus High Precision became a wholly owned subsidiary of the Company and the Company held the entire interest in Fujian Wide Plus.

On [10 February] 2009, the Company was notified by the legal adviser of Standard Bank Asia Limited that the entire issued share capital of Allied Basic Limited had been transferred from its sole shareholder, Ms. He Yuzhu, to Standard Bank Asia Limited as a result of the enforcement of a security on 2 February 2009. Such transfer resulted in Standard Bank Asia Limited holding a beneficial interest in the share capital of Allied Basic Limited, which held 15.89% interest in the Company, which it came to fully own on 10 June 2009.



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### **FURTHER REORGANISATION AND INVESTMENTS BY STANDARD BANK PLC AND ORCHID ASIA IV, L.P. AND ORCHID ASIA IV CO-INVESTMENT, LIMITED**

As mentioned above, on 2 February 2009, Standard Bank Asia Limited held a beneficial interest in Allied Basic Limited which indirectly held 603,820 Shares being 15.89% interest in the Company. The Existing Shareholders intended to retain ownership of such 603,820 Shares and overall control of the Company before the [●] and to obtain financing for the Company’s capital expansion and working capital need, thus the Company underwent the following further reorganisation and consented to the investment and divestment made by Standard Bank Plc and Standard Bank Asia Limited respectively and entered into a series of agreements.

### **Information regarding Standard Bank Asia Limited and Standard Bank Plc and Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited**

#### *Standard Bank Asia Limited and Standard Bank Plc*

Standard Bank Asia Limited is a fully licensed bank in Hong Kong regulated by the Hong Kong Monetary Authority and has been granted registered institution status by the Securities and Futures Commission to conduct regulated activities of dealing in and advising on securities and futures contracts, as well as advising on securities, futures contracts and corporate finance. It is a member of Standard Bank Group, a leading South African banking group focused on emerging markets globally including Brazil, Russia and China. Its headquarters is in Johannesburg and it is listed on the Johannesburg Stock Exchange.

Standard Bank group’s corporate and investment banking division is one of leading global emerging markets corporate and investment banks. Standard Bank Plc in London is Standard Bank Group Limited’s principal international subsidiary which engages in investment banking services in various sectors and emerging markets.

To the best knowledge of the Directors, both Standard Bank Asia Limited and Standard Bank Plc are Independent Third Parties.

#### *Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited*

Orchid Asia IV, L.P. (“Orchid Asia 1”) is an exempted limited partnership registered under the laws of Cayman Islands. Orchid Asia 1 is part of Orchid Asia Group Management, Ltd., an investment group which assists corporate executives of companies in the consumer service and products sectors with high growth prospects to formulate strategies to finance and expand their business enterprises. The investment group focuses in particular on companies in Asia and China. Orchid Asia 1 is an investment partnership that has capital commitments from a group of leading institutional investors and high net worth individuals.

Orchid Asia IV Co-Investment, Limited (“Orchid Asia 2”) is a limited liability company incorporated under the laws of Cayman Islands. Orchid Asia 2 is also part of Orchid Asia Group Management, Ltd. Orchid Asia 2 is an investment special purpose vehicle which may invest outside of and alongside with Orchid Asia group members in any portfolio investments.

To the best knowledge of the Directors, both Orchid Asia 1 and Orchid Asia 2 are Independent Third Parties.

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To the best knowledge of the Directors, both Standard Bank Asia Limited and Standard Bank Plc are Independent Third Parties to Orchid Asia 1 and Orchid Asia 2.

On 19 February 2009 and 19 March 2009, Sunny Zone Limited respectively transferred part of its interest in the Company, being 0.6% and 4.8% interest in the Company, to Sea Princess International Investments Limited at the nominal consideration of HK\$1. Sunny Zone Limited and Sea Princess International Investments Limited are both beneficially owned by Ms. Lam Yin Fong.

Pursuant to the resolutions passed at the extraordinary general meeting of the Company on 19 March 2009, the authorised share capital of the Company was increased from HK\$380,000 to HK\$502,000 by the creation of 1,220,000 shares of HK\$0.10 each and following the increase, such authorised share capital of HK\$502,000 was redesignated and reclassified (i) as to HK\$500,000 into 5,000,000 Class A Shares of HK\$0.10 each and (ii) as to HK\$2,000 into 2,000,000 Class B Shares of HK\$0.001 each having the rights and privileges and subject to the restrictions set out in the then Articles.

On 11 June 2009, Fortune Plus was established and is wholly and beneficially owned as to [66.6]% by Mr. Wong, [10.99]% by Mr. Wong Sun Hoi, [7.55]% by Mr. Ng Hiu King, [7.73]% by Investidea Investments Limited, [0.71]% by Sunny Zone Limited and [6.42]% by Sea Princess International Investments Limited. On 14 August 2009, Sunny Zone Limited transferred its entire interest in Fortune Plus, being [0.71]% interest in Fortune Plus, to Sea Princess International Investments Limited which is beneficially owned by Ms. Lam Yin Fong at its par value in the consideration of US\$71. Sunny Zone Limited and Sea Princess International Investments Limited are both beneficially owned by Ms. Lam Yin Fong.

On 8 July 2009, pursuant to the Facility Agreement (as defined below), Standard Bank Plc agreed to grant a term loan facility of US\$21,700,000 to the Company, while the Company agreed to advance to Fortune Plus, as borrower, a loan in the sum of up to US\$21,700,000 pursuant to the On-Loan Agreement (as defined below). Fortune Plus then used such loan to acquire 603,820 Class A Shares from Allied Basic Limited, which is beneficially owned by Standard Bank Asia Limited. Immediately upon the completion of the acquisition, pursuant to the CB Subscription Deed (as defined below), the Company agreed to issue the convertible bond in the initial principal amount of US\$35,000,000 convertible into Class A Shares (“First CB”) and to issue 879,442 Class B Shares to Standard Bank Plc at par value of HK\$0.001 each. The proceeds of the First CB were used as capital expenditure mainly for construction and expansion of phase 2 of production facility of the Company. Further details and terms of the agreements regarding the investments by Standard Bank Plc are set out as below.

After completion of the investments by Standard Bank Plc, on 14 August 2009 and 17 August 2009, part of the First CB in the principal amount of US\$17,000,000 was transferred by Standard Bank Plc to Orchid Asia 1 and Orchid Asia 2 respectively, while 427,158 Class B Shares were also transferred to Orchid Asia 1 and Orchid Asia 2 respectively at par value of HK\$0.001 each. Further details and terms of the agreements regarding the investments by Orchid Asia 1 and Orchid Asia 2 are set out as below.

### **Investments by Standard Bank Plc and Orchid Asia 1 and Orchid Asia 2**

In relation to the investments by Standard Bank Plc, Orchid Asia 1 and Orchid Asia 2, the following transactions were entered by the Existing Shareholders, Fortune Plus, the Group, Standard Bank Plc, Standard Bank Asia Limited, Orchid Asia 1 and Orchid Asia 2.

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### **Investments by Standard Bank Plc**

#### ***AB Sale and Purchase Agreement***

On 8 July 2009, Fortune Plus entered into a sale and purchase agreement with Allied Basic Limited and the Company (“AB Purchase Agreement”) and pursuant to which:

- i. Allied Basic Limited agreed to sell and Fortune Plus agreed to purchase 603,820 Class A Shares free from encumbrances, being 15.89% interest in the Company, at the consideration equals to the amount of On-loan (as defined below) (“AB Purchase”) and such consideration was arrived at arm’s length negotiation;
- ii. 603,820 Class A Shares held by Allied Basic Limited shall be transferred to Fortune Plus upon completion of the AB Purchase; and
- iii. the completion of AB Purchase was conditional upon the issuance and subscription for the First CB (as defined below) and the Class B Shares and the loan being advanced to the Company under and in accordance with the Facility Agreement (as defined below).

#### ***On-loan Agreement***

On 8 July 2009, Fortune Plus entered into a loan agreement with the Company (“On-loan Agreement”) and pursuant to which:

- i. the Company, as the lender, agreed to advance to Fortune Plus, as the borrower, the loan in the sum of up to US\$21,700,000 (“On-loan”) received under the Facility Agreement (as defined below) for the sole purpose of financing the AB Purchase;
- ii. the Company’s obligation to lend under the On-loan Agreement was conditional upon the loan being advanced to the Company under and in accordance with the Facility Agreement;
- iii. the On-loan shall be subject to the same interest rate as on the loan under the Facility Agreement; and
- iv. Fortune Plus is required to repay the outstanding On-loan together with accrued interest thereon immediately upon an event of default described in the Facility Agreement or an event of default described in the On-loan Agreement is continuing or upon request of the Company.

To the best knowledge of the Directors, Fortune Plus intends to repay the On-loan prior to the [●] by cash.

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### ***Facility Agreement***

On 8 July 2009, the Company, Wide Plus High Precision and Mr. Wong entered into a senior term facility agreement with Standard Bank Asia Limited (as arranger, agent and security agent) (“Security Agent”) and Standard Bank Plc (“Facility Agreement”) and pursuant to which:

- i. Standard Bank Plc, as the lender, agreed to grant a term loan facility of US\$21,700,000 to the Company, as the borrower (“Facility”);
- ii. Wide Plus High Precision and Mr. Wong, as the guarantors, irrevocably and unconditionally jointly and severally guaranteed to each of Standard Bank Asia Limited and Standard Bank Plc punctual performance by the Company of all obligations under the Facility Agreement and other finance documents in relation thereto;
- iii. the Facility was available during the period from and including the date of Facility Agreement to and including the date falling five business days after the date of the Facility Agreement;
- iv. the interest rate of the Facility under the Facility Agreement was the aggregate of 8% per annum and LIBOR;
- v. the Facility is repayable in five equal instalments the first commencing the first anniversary of the date of the Facility Agreement;
- vi. the Facility is repayable in full together with accrued interest thereon on the date falling 3 years after the date of Facility Agreement or if earlier upon events of default described in the Facility Agreement;
- vii. the Facility will be prepaid upon occurrence of the events of a change of control in the Company or [●] and if the lender(s) so require, the Security Agent, shall by not less than 10 days notice to the Company, cancel the Facility and declare all outstanding amounts together with accrued interest due and payable, whereupon the Facility will be cancelled; and
- viii. the Company may declare and pay a cash dividend for the sole account of Fortune Plus provided that the amount of such dividend declared will not exceed the amount then outstanding under the On-loan or it will not result in the total cumulative dividends declared to exceed US\$21,700,000 and no event of default described in the Facility has occurred for the purpose of repaying the On-loan.

To the best knowledge of the Directors, the Company intends to prepay the Facility to Standard Bank Plc upon the [●] by applying the repayment of On-loan.

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### ***WPHP Loan Agreement***

On 8 July 2009, Wide Plus High Precision entered into a loan agreement with the Company (“WPHP Loan Agreement”) and pursuant to which:

- i. the Company, as the lender, agreed to advance an interest-free loan in the aggregate principal amount of US\$30,000,000 to Wide Plus High Precision, as the borrower, for investment purposes;
- ii. the Company’s obligation to lend under the WPHP Loan Agreement is conditional upon the completion of issue of First CB in accordance with the CB Subscription Deed (as defined below); and
- iii. Wide Plus High Precision shall repay the loan in full upon an event of default as described in the CB Subscription Deed or upon demand by the Company or on the fifth anniversary of the date of the loan being drawn.

### ***CB Subscription Deed***

On 8 July 2009, the Company entered into a subscription deed (“CB Subscription Deed”) with Standard Bank Plc, Standard Bank Asia Limited, Fortune Plus, and the Existing Shareholders pursuant to which Standard Bank Plc agreed to subscribe for and the Company agreed to issue the convertible bond in the initial principal amount of US\$35,000,000 convertible into Class A Shares and to issue 879,442 Class B Shares to Standard Bank Plc at par value of HK\$0.001 each.

The First CB was issued by the Company to Standard Bank Plc on 10 July 2009 (“First CB Issue Date”).

After subscription of the First CB, on 13 August 2009, Sunny Zone Limited transferred 22,800 Class A Shares to Standard Bank Asia Limited, being [0.48%] interest in the Company, at the consideration of HK\$7,350,000.

### ***First CB***

#### *Principal Terms of the First CB*

##### *Interest Period and Interest*

Interest periods shall commence from 1 January and ending on and including 30 June every year and from 1 July and ending on and including 31 December every year (the first interest period shall commence on the date of issue of the First CB).

The interest rate shall be 8% per annum during the first and second interest period, 10% per annum for the third and fourth interest period and 14% per annum thereafter. Interest accrues on daily basis until the date on which the First CB is repaid in full and if earlier on the Maturity Date (as defined below) or any other date on which repayment is made or upon conversion.

##### *Payment of Interest*

Interest shall be repaid in cash at the end of respective interest periods in immediately available funds and free from any withholdings or deductions for any present or future taxes, imposts, levies, duties or other charges in connection with any such payments.

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In the event of any conversion of the First CB, the Company shall pay an amount equal to the interest and amounts accrued but unpaid in respect of the principal amount of the First CB being converted.

### Maturity Date

The fifth anniversary of the First CB Issue Date.

### Repayment

The outstanding amount of the First CB, together with interest accrued thereon shall be repaid on the Maturity Date or upon demand from the holder(s) of First CB after the third anniversary of the First CB Issue Date or upon an event of default.

### Conversion

The holder(s) of First CB shall be entitled to convert the whole or part of the First CB provided that any conversion of part shall be made in amounts of not less than a whole multiple of US\$1,000,000 on each conversion.

Save and except where an event of default is continuing or a required adjustment to the conversion price has not been finalized or the holder(s) of the First CB has requested repayment in the circumstances where there is an event of default or after the third anniversary of the First CB Issue Date subject to the terms of the First CB, there shall be mandatory conversion (“Mandatory Conversion”) of the First CB in the event of a Qualified IPO (as defined below).

The term “Qualified IPO” means an initial public offering in connection with the commencement of listing on the main board of the Stock Exchange or (subject to the prior consent of the holder(s) of the First CB) New York Stock Exchange, NASDAQ, American Stock Exchange, or a stock exchange in Japan or London and all the following conditions are satisfied:-

- (i) the number of Shares offered to members of the public and/or to professional or institutional investors is at least [●]% of the Fully Diluted Number of Shares (as defined below);
- (ii) Class A Shares are the only class of Shares of the Company on such date; and
- (iii) the price per Share in such initial public offering multiplied by the Fully Diluted Number of Shares (but excluding any Shares issued in Qualified IPO and, for the avoidance of doubt, excluding any Shares or interests therein that arise as a result of a breach of finance documents in relation to the investment of Standard Bank Plc or where their existence would otherwise breach the representations and warranties provided in CB Subscription Deed) shall be:
  - (a) not less than RMB[●] (or its equivalent) if the IPO (as defined below) occurs within twelve (12) months from the First CB Issue Date; or
  - (b) not less than RMB[●] (or its equivalent) if the IPO occurs after twelve (12) months but before twenty four (24) months from the First CB Issue Date; or
  - (c) not less than RMB[●] (or its equivalent) if the IPO occurs after twenty four (24) months but before thirty six (36) months from the First CB Issue Date; or

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- (d) not less than RMB[●] (or its equivalent) if the IPO occurs after thirty six (36) months but before forty eight (48) months from the First CB Issue Date; or
- (e) not less than RMB[●] (or its equivalent) if the IPO occurs after forty eight (48) months from the First CB Issue Date,

or in respect of items (a) to (e) above, such lower market capitalization as agreed by all holders of the First CB.

The term “IPO” means an initial public offering in connection with the commencement of listing on a stock exchange of the Shares (including any conversion shares) of the Company.

The term “Fully Diluted Number of Shares” means, as of any date of determination, the sum determined by CB Agent (as defined below) (i) all Shares then outstanding; (ii) all Shares issuable pursuant to any equity securities which are convertible into or exchangeable or exercisable for Shares (assuming conversion, exchange or exercise to the fullest extent of their terms and including the principal amount of the First CB); and (iii) all Shares issuable pursuant to any contractual or other obligations of the Company and/or the Company and Mr. Wong and Mr. Wong Sun Hoi, provided that this calculation shall not take into account the number of Class B Shares relating to the First CB, to the extent that the Class A Shares related to the First CB has already been taken into account for the purposes of this determination.

### Conversion Price

At the Issue Date, US\$39.80, subject at all times to adjustments pursuant to conditions in the First CB.

### Anti-dilution adjustment to Conversion Price

The anti-dilution adjustment mechanism is for the purpose of protecting the interests of the holder(s) of the First CB and the value of the underlying conversion right.

The conversion price will be subject to anti-dilution adjustment provisions for events which could have a dilutive effect on the value of the Class A Shares, for example, sub-division of Class A Shares, capitalization of profits or reserves, capital distribution, rights issues of Class A Shares or options over Class A Shares, rights issues of other securities, issues at less than current market price, modification of rights of conversion, where the adjustments would result in a decrease in the conversion price of the First CB and such that the holder(s) of the First CB would have been entitled to receive had the First CB been converted immediately prior to such occurrence of the event. The said adjustments will be made, if required, with no reference to the [●] Price of the Shares. [As at the Latest Practicable Date], no anti-dilution adjustment has been made in accordance with the said anti-dilution adjustment mechanism.

### Event of Default

The occurrence of the following shall be, among others, an event of default:

- (i) the Company fails to maintain an Adjusted NPAT (as defined below) equal to or above RMB218,500,000 for the financial year ending 30 June 2009, RMB240,000,000 for the financial year ending 30 June 2010, RMB264,000,000 for the financial year ending 30 June 2011 and RMB323,000,000 for the financial year ending on 30 June 2012;

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- (ii) the Company fails to pay any principal, repayment amount, interest or coupon due on or in respect of the First CB;
- (iii) the Company fails to perform or comply with any obligations, representation or statements or undertakings in the finance documents in relation to the investment of Standard Bank Plc by the Company, the Group, Fortune Plus and Existing Shareholders;
- (iv) any insolvency event in respect of the Company, the Group, Fortune Plus and Mr. Wong;
- (v) Mr. Wong ceases (for any reason, including ill health) to be a Director or Shareholder;
- (vi) Mr. Wong fails to perform or comply with any obligations in the First CB or the documents in relation to the investment of Standard Bank Plc and such failure is incapable of remedy or, if capable of remedy, is not remedied within thirty (30) days;
- (vii) at any time:
  - (a) Fujian Wide Plus ceases to be a wholly-owned direct subsidiary of Wide Plus High Precision; or
  - (b) Wide Plus High Precision ceases to be a wholly-owned direct subsidiary of the Company; or
- (viii) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the finance documents in relation to the investment of Standard Bank Plc.

The term “Adjusted NPAT” means the audited consolidated profit after tax and extraordinary items of the Group disclosed in the Adjusted NPAT Calculation.

The term “Adjusted NPAT Calculation” means for each of the relevant fiscal years ending 30 June, the audited consolidated net profit after tax and extraordinary items of the Group, prepared in accordance with HKFRS as issued in writing by the Company’s auditors, to be adjusted by ensuring that such net profit after tax and material items of an unusual or non-recurring nature is arrived at after adding back losses and expenses or deducting profits and gains in relation to:

- (a) all fair value adjustments required under HKFRS relating to the provision of the Facility Agreement and the First CB;
- (b) the reported interest expense and financing fees (including any upfront-fee, structuring fee, and underwriting fee) of the First CB and the Facility Agreement calculated under amortised cost method, if applicable, and the nominal interest calculated pursuant to the First CB;
- (c) all fair value adjustments required under HKFRS relating to the issue of the First CB, including but not limited to (i) the redesignation of the ordinary shares into Class A Shares, (ii) the issue of Class B Shares and (iii) foreign currency swap implicit in the First CB;
- (d) the acceleration of vesting due to the cancellation of the options granted under the Pre-IPO Share Option Scheme, as required by HKFRS 2 “Share-based Payment”;



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- (e) all expenses related to the On-loan; and
- (f) all revaluation adjustments required under the relevant accounting principles relating to plant, properties and equipment or other non-current assets (for the avoidance of doubt, any adjustment related to the write-downs or write-offs of accounts receivables or inventories shall be excluded).

Pursuant to the CB Subscription Deed, upon conversion of the First CB, Class B Shares subscribed by the holder(s) of the First CB shall be automatically redeemed by the Company at nil consideration and cancelled and any Class B Shares not otherwise redeemed and cancelled will be redeemed automatically by the Company at nil consideration and cancelled without any compensation.

The Directors confirm that the Company’s Adjusted NPAT for the year ended 30 June 2009 is RMB222,562,000 which exceeds the lowest Adjusted NPAT, RMB218,500,000, of which the Company is required to maintain under the terms of the First CB.

### Charges

To secure due and punctual performance of its obligations under the On-loan Agreement, Fortune Plus charged 603,820 Class A Shares in favor of the Company on 8 July 2009.

To secure due and punctual performance of its obligations under the finance documents in relation to the First CB and the Facility, the Company and Wide Plus High Precision each charged all its assets in favor of Standard Bank Asia Limited, as Security Agent and CB Agent on 8 July 2009 and such charge will be released upon the prepayment of all outstanding amounts together with accrued interest under the Facility immediately after the [●].

To secure due and punctual performance of its obligations under the finance documents in relation to the First CB and the Facility, Mr. Wong charged [2,128,760] Shares, being his entire direct interest in shares of the Company and the Company charged 10,000 shares of Wide Plus High Precision, being its entire interest in Wide Plus High Precision in favor of Standard Bank Asia Limited, as Security Agent and CB Agent on 8 July 2009 and such charge will be released upon the prepayment of all outstanding amounts together with accrued interest under the Facility immediately after the [●].

### Agency Agreement

On 8 July 2009, the Company entered into an agency agreement (“Agency Agreement”) with Mr. Wong and Mr. Wong Sun Hoi and Standard Bank Plc and Standard Bank Asia Limited pursuant to which Standard Bank Plc in capacity of the holder of First CB has appointed Standard Bank Asia Limited as its agent (“CB Agent”) for the purpose of carrying certain arrangements in relation to the performance of the First CB and Mr. Wong and Mr. Wong Sun Hoi agreed and acknowledged such arrangements.

### Guarantee

On 8 July 2009, in connection with the CB Subscription Deed, Wide Plus High Precision, as corporate guarantor, gave a guarantee in favor of the CB Agent acting on behalf of, and for the benefit of the holder(s) of the First CB to guarantee the obligations of each member of the Group and Mr. Wong and Mr. Wong Sun Hoi under the finance documents in relation to the First CB (“Corporate Guarantee”).

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On 8 July 2009, in connection with the CB Subscription Deed, Mr. Wong, as guarantor, gave a guarantee in favor of the CB Agent acting on behalf of, and for the benefit of the holder(s) of the First CB to guarantee the obligations of the Company, Mr. Wong and Mr. Wong Sun Hoi under the finance documents in relation to the First CB (“Individual Guarantee”).

### *Security Holders’ Deed*

#### Management of the Company

Pursuant to the terms of a security holders’ deed dated 8 July 2009 (“Security Holders’ Deed”), so long as the holder(s) of the First CB (or the ex-holder(s) of the First CB after conversion or repaid) holds more than 50% of the total principal amounts of the First CB or more than 50% of the value of whose combined amounts owing to the holder(s) of the First CB (or the ex-holder(s) of the First CB) under the Security Holders’ Deed and/or any finance documents in relation to the First CB, the CB Agent on behalf of the First CB shall have the right to appoint one director to Board of the Company and each of the Group outside PRC.

#### Dividend

The holder(s) of Class B Shares shall not be entitled to receive dividends from the Company.

#### Reserved Matters

Certain reserved matters of the Company (such as the adoption or termination of the Company’s share option scheme, incurrence of indebtedness or expenditure over a certain limit other than those described and permitted by the business plan and budget, amendment of constitutional documents and the declaration of dividends by the Company) must be approved by the CB Agent on behalf of the holder(s) of the First CB.

#### Pre-emptive Right

Holder(s) of the First CB has a pre-emptive right to purchase up to its pro rata share (with reference to the principal amount which the holder(s) of First CB subscribed) of any new securities which the Company may, from time to time, propose to sell, offer or issue.

#### Right of First Offer

Holder(s) of the First CB has a right of first offer over the Shares proposed to be sold by Fortune Plus and the Existing Shareholders of the Company.

#### Tag-along Rights

In the event that Fortune Plus and any of the Existing Shareholders sells any part of its shareholding in the Company to a third party, which shall result in Fortune Plus and the Existing Shareholders holding in aggregate less than 63% of the Shares (subject to the approval by Standard Bank Plc, the shareholders’ rights of first offer and certain other stipulated conditions), the holder(s) of the First CB has the right to have up to a pro rata portion of its shareholding interest in the Company included in such sale, on substantially the same terms and conditions as such share sale by Fortune Plus and the Existing Shareholders of the Company.

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### Information Rights

The holder(s) of the First CB through the CB Agent is entitled to have full and equal access to the financial and accounting information, annual business plan and other books and records subject to certain confidentiality obligations.

[[As at the Latest Practicable Date], the holders of the First CB and Transferred CBs have not exercised their right to nominate a director and/or an alternate to the Board of the Company or each of the Group outside PRC under the Security Holders’ Deed.]

[[As at the Latest Practicable Date], the holders of the First CB and Transferred CBs have not exercised their pre-emptive right under the Security Holders’ Deed.]

### **Divestments by Standard Bank Plc to Orchid Asia 1 and Orchid Asia 2**

Subject to the terms of the CB Subscription Deed and pursuant to the CB Transfer Deed and the First Amendment Deed to the CB Subscription Deed dated [14] August 2009, on [17] August 2009, part of the First CB in the principal amount of US\$17,000,000 was transferred by Standard Bank Plc to Orchid Asia 1 and Orchid Asia 2 as to US\$16,660,000 and US\$340,000 respectively (“Transferred CBs”), while 418,615 and 8,543 Class B Shares were also transferred to Orchid Asia 1 and Orchid Asia 2 respectively at par value of HK\$0.001 each.

Following the said transfers, Standard Bank Plc held the First CB in the principal amount US\$18,000,000 and 452,284 Class B Shares.

#### *Principal Terms of the Transferred CBs*

Save and except the principal amount subscribed and the identity of the subscribers, the principal terms of the Transferred CBs are substantially the same as the First CB.

### **Cancellation of special rights and release of security**

#### *Variation Agreement*

Pursuant to the terms of the variation agreement dated 25 September 2009 (“Variation Agreement”) entered into between the holders of First CB and Transferred CBs, CB Agent, the Existing Shareholders and Fortune Plus, i) all special rights granted to the holders of First CB and Transferred CBs, including any management, transfer, information or veto rights and any interest in the security provided by the Group, under the Security Holder’s Deed and the finance documents in relation the First CB; and ii) the Corporate Guarantee and the Individual Guarantee, will be terminated and ceased or released upon Mandatory Conversion and the [●] (“Relevant Event”). If the [●] has not occurred by 31 December 2009, the CB Agent shall have the right to terminate the Variation Agreement.

#### *Undertaking to Release Security*

Pursuant to the terms of the undertaking to release security dated 25 September 2009 (“Undertaking to Release”) executed by Standard Bank Asia Limited (in its capacity as CB Agent and Security Agent), upon i) the Facility has been irrevocably repaid in full and no other secured obligations in relation thereto; ii) the Facility being terminated; and iii) the holders of First CB and Transferred CB cease to have interest in the security given by the Group (the events i), ii) and iii) collectively referred to as “Release Event”) and upon request of the Company, no later than five

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business days, the Security Agent shall release the security and guarantees in relation to the Facility. If the Release Event has not occurred by 31 December 2009, Standard Bank Asia Limited shall have the right to terminate the Undertaking to Release.

Subject to and in accordance with the terms of the Facility Agreement, the Variation Agreement and the Undertaking to Release, the Facility shall be prepaid upon the [●] and all security and guarantees in relation to the Facility shall be released by the Security Agent by no later than five business days thereafter.

### Lock-up

Upon the occurrence of the Relevant Event, each of Standard Bank Plc, Standard Bank Asia Limited, Orchid Asia 1 and Orchid Asia 2 undertakes that:

- (a) neither Standard Bank Plc/Standard Bank Asia Limited/Orchid Asia 1/Orchid Asia 2 nor any of their associates or companies controlled by them has any present intention of disposing of any Shares or other securities of the Company in respect of which they are shown in this document to be the beneficial owner (or any beneficial interest therein) during the First Six Months (defined below);
- (b) without the prior written consent of each of the Company, the [●], the Joint Lead Managers (for themselves and on behalf of the [●]) and the Stock Exchange, they shall not, and shall procure and ensure that none of their associates or companies controlled by them or any nominee or trustee holding in trust for them shall, transfer or enter into any agreement to dispose of or otherwise dispose of (including, without limitation, by the creation of any option over or any mortgage, charge or other security interest in respect of) any interest in any of the Shares in respect of which they are shown in this document to be the beneficial owner immediately following completion of the [●] ("**Relevant Shares**") or any interest in any shares in any company controlled by them which is directly, or through another company indirectly, the beneficial owner of any of the Relevant Shares within the period commencing on the date by reference to which disclosure of their shareholding is made in this document and ending on the date which is 6 months from the date of which dealings in the Shares commence on the Stock Exchange (the "**First Six Months**"),

provided that if the Relevant Event has not occurred by 31 December 2009, each of Standard Bank plc, Standard Bank Asia Limited, Orchid Asia 1 and Orchid Asia 2 shall have the right, at any time after that date by giving a written notice to the Company, to terminate their undertakings above.

The above restrictions shall not prevent Standard Bank Plc, Standard Bank Asia Limited, Orchid Asia 1 and Orchid Asia 2 from using the Relevant Shares owned by them as security (including a charge or a pledge) in favour of an authorized institution (as defined in the Banking Ordinance (Cap.155), Laws of Hong Kong) for a bona fide commercial loan.

### Conversion of the First CB and the Transferred CBs

Under the terms of the First CB and the Transferred CBs, there shall be Mandatory Conversion in the event of a Qualified IPO, the Directors confirm that it is the intention of the Company that the [●] will trigger a Qualified IPO which will result Mandatory Conversion of the First CB and the Transferred CBs.

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Following such conversion and upon the completion of the Capitalisation Issue and the [●], Standard Bank Plc will be holding a total of [●] Shares representing approximately [●]% shareholding in the Company, assuming there are no diluting issuances by the Company such as consolidation, subdivision or capitalisation of the Shares.

Following such conversion and upon the completion of the Capitalisation Issue and the [●], Orchid Asia 1 and Orchid Asia 2 will be holding a total of [●] Shares representing approximately [●]% shareholding in the Company, assuming there are no diluting issuances by the Company such as consolidation, subdivision or capitalisation of the Shares.

The price per Share paid by Standard Bank Plc and Orchid Asia 1 and Orchid Asia 2 was approximately HK\$[1.94] (the “Entry Price”). Based on the stated [●] Price range, the Entry Price represents a discount of approximately [●]% to the [●] Price of HK\$[●] per Share, being the bottom end of the stated [●] Price range, and a discount of approximately [●]% to the [●] Price of HK\$[●] per Share, being the top end of the stated [●] Price range.

### **Use of Proceeds of the First CB and Transferred CBs and Investment Risks**

The investment risks that Standard Bank Plc was subject to when making the investment in the Company in July 2009 were entirely different from the risks which the public may have to bear in the [●].

At the time the investment by Standard Bank Plc was made, the Company was still a private company. The terms of the First CB reflected and justified by the illiquidity of the Shares, the possibility that the Qualified IPO may not take place, the historical financial performance of the Group, the negotiations of the parties at relevant time and the 6 months lock-up arrangement that Standard Bank Plc was subject to. In addition, to the best knowledge of the Directors, such investment and the latter divestment to Orchid Asia 1 and Orchid Asia 2 were made as a result of ordinary course risk diversification of Standard Bank Plc which was pre-agreed between the Company and Standard Bank Plc.

The proceeds from the investment by Standard Bank Plc in the Company were used as capital expenditure mainly for construction and expansion of phase 2 of the production facility of the Company situated in Long Men Village, Kuaian Technology Park, Economic Technology Development Zone, Mawei District, Fuzhou City, PRC.

At the time when the investments by Orchid Asia 1 and Orchid Asia 2 were made in August 2009, there was no assurance that the approval of the [●] will be obtained and there was a time period of uncertainty between Orchid Asia 1 and Orchid Asia 2 investing in the Transferred CBs and the [●], also the 6 Months lock-up arrangement that Orchid Asia 1 and Orchid Asia 2 were subject to. During such period the global financial markets continued to face immense uncertainty. Hence, the investment risks that Orchid Asia 1 and Orchid Asia 2 were subject to when making the investment in the Company in August 2009 were therefore entirely different from the risks which the public may have to bear in the [●].

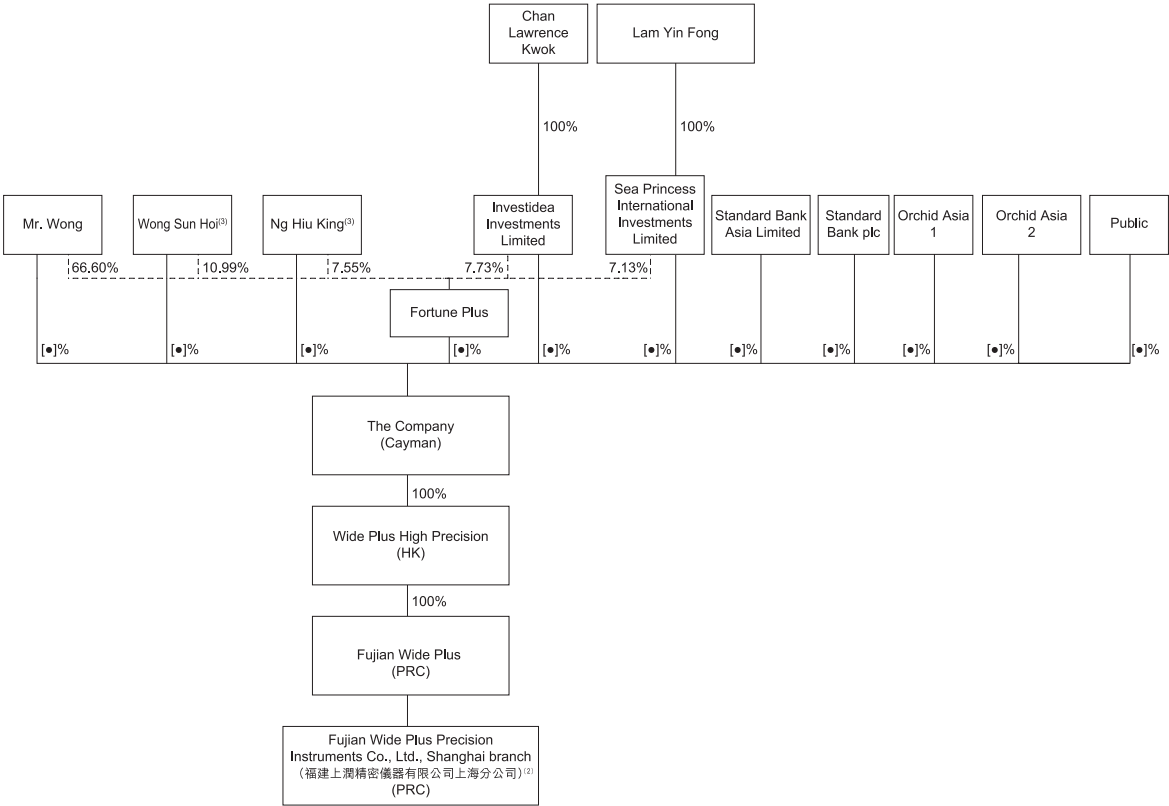
The Group’s PRC legal adviser, Dacheng Law Offices, has confirmed that the Group has obtained all approvals and permits required under PRC laws and regulations in connection with each stage of the reorganisation. [In addition, given the fact that Fujian Wide Plus, the PRC subsidiary of the Company, is established as foreign owned enterprises and controlled by the Company or its affiliates before 8 September 2006, the Group’s PRC legal adviser confirms that the Corporate Reorganization is not subject to the requirements under the Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors].

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### GROUP STRUCTURE

The following chart sets out the shareholding structure and the operating subsidiaries of the Group immediately following the [●] taking no account of any shares which may be allotted and issued under the Share Option Scheme and the [●].



**Notes:**

- 1: The Group’s PRC legal adviser, Dacheng Law Offices, has advised that none of the shareholders of the Company is a PRC resident and required to register with State Administration of Foreign Exchange of the PRC (中國國家外匯管理局) in respect of their investments in the Group.
- 2: This branch company was established on 30 April 2007 under PRC laws and is mainly engaged in business coordination for the holding company.
- 3: Mr. Ng Hiu King and Mr. Wong Sun Hoi hold directorships in Fujian Wide Plus, and are connected persons within the meaning of the Listing Rules.
- 4: The Shares held by each of Standard Bank Asia Limited, Standard Bank plc, Orchid Asia 1 and Orchid Asia 2 will not be treated as part of the [●] after the [●].

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## BUSINESS

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### OVERVIEW

The Group is one of the market leaders in the high precision industrial automation instrument and technology products industry in China operating under the Wide Plus brand. The Group is principally engaged in the research and development, manufacturing and sale of high precision industrial automation instrument and technology products, targeting the middle to high-end segments of the industrial automation instruments markets. The Group’s high precision automation instrument and technology products can be used to detect, measure and analyse information (such as temperature, water pressure, or other variables) and are widely used in industrial production applications. During the financial year ended 30 June 2009, the Group’s sales of high precision industrial automation instruments accounted for approximately [74.6]% of its total sales.

The Group’s key high precision industrial automation instruments and technology products include:

- Detector (檢測儀錶) — an instrument that detects and assesses pressure, temperature, flow and liquid level by converting information received into data that can be transmitted and analysed;
- Indicator (顯示儀錶) — an instrument that indicates the status of a production processes either by a set of numbers or by other signals after receiving and analysing data transmitted to it; and
- Controller (控制調節儀錶) — an instrument, such as a valve, that can change the flow of gas or liquid, pressure and liquid levels upon input from a control system.

The Group has been actively involved in the establishment of 42 national and international industry standards covering production safety, detection, testing, recording, electromagnetic compatibility and other relevant standards concerning the production and manufacturing of high precision automation instrument and technology products in the PRC.

In addition to the Group’s high precision industrial automation instrument and technology products business, the Group is also engaged in the manufacturing of horological instrument products for use in quartz watches. During the financial year ended 30 June 2009, the Group’s sales of horological instrument products accounted for approximately [25.4]% of its total sales.

The Group’s key horological instrument products include:

- Two-hand all plastic quartz watch movements — [a quartz watch movement that controls the hour and minute hands of the watch];
- Three-hand all plastic quartz watch movements — [a quartz watch movement that controls the second, hour and minute hands of the watch];
- Calendar all plastic quartz watch movements — [a quartz watch movement that controls the day and date displays of the watch].

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The pressure transmitter sector, which forms part of the Group’s detector product category, of the high precision industrial automation instruments market and the quartz watch movements market in which the Group competes are both oligopoly markets, whereas the indicator and controller sectors are considered both as an oligopoly market and as a monopolistic competitive market.

The Group has been actively involved in the establishment of 3 national and international industry standards concerning the production and manufacturing of horological instruments products in the PRC.

According to the PRC Instrument Industry Report (中國儀器儀錶行業調研報告) dated March 2008, which is publicly available information, in 2006, the Group is the leading manufacturer of indicators and controllers and the leading PRC-based manufacturer of pressure transmitters in China in terms of the number of units sold in 2006. With the exception of limited involvements by some domestic enterprises, the middle to high-end segment of the PRC market with high stability, reliability and precision requirements is oligopolistic in nature and almost exclusively reliant on imports or products manufactured by foreign invested enterprises (三資企業) such as the Group, with a relatively limited number of international brands commanding dominant market positions.

### Market Share of Major Pressure Transmitter Manufacturers in 2006

	Market (units)	Enterprise Type
1. Emerson	145,000	Joint Venture
2. Yokogawa	120,000	Joint Venture
3. <b>The Group</b> <i>(Note 1)</i>	<b>45,000</b>	<b>Hong Kong</b>
4. Chongqing Wecan	38,000	China
5. E + H	30,000	Joint Venture
6. Others	<u>182,000</u>	
Total	<u><u>560,000</u></u>	

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008.

Note 1: The above ranking is attributed to Wide Plus



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### Market Share of Major Indicator and Controller Manufacturers in 2006

	Market (’000 units/ sets)	Enterprise Type
1. <b>The Group</b> <sup>(Note 1)</sup>	300	Hong Kong
2. RKC	150	Japan
3. OMRON	120	Japan
4. Xiamen Yudian Automation Technology Co., Ltd	80	China
4. Fujian Shunchang Hongrun Precision Instrument Co., Ltd	80	China
4. Sichuan Instrument Complex Co., Ltd. Control Meter Branch	80	China
5. Autonics Electronic (Jiaying) Corporation	50	South Korea
6. Shimaden	30	Japan
6. Shanghai Dahua Chino Instrument Co., Ltd.	30	Joint Venture
7. Others	2,200–2,700	
<b>Total</b>	<b>3,000–3,500</b>	

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

Note 1: The above rankings are attributed to Wide Plus.

According to the National Standard of the Classifications and Codes of National Economy Industries (GB/T4754-2002) (《國民經濟行業分類》國家標準 (GB/T4754-2002)), industrial automation instruments and horological instruments and timers are both classified in the instrument industry (儀器儀錶行業). According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, automation instruments and systems account for about half of the total instrument industry sales revenues.

The Group derived approximately 64.1%, 70.9% and [74.6]% of its turnover during the Track Record Period from the manufacture and sale of high precision industrial automation instrument and technology products.

During 1990’s, the predecessors of the Group were primarily engaged in (i) the manufacturing of consumer horological instruments and quartz watch movements and related components, and (ii) the research and development, as well as the manufacture of, industrial automation products including electronic display and control instruments and associated control system and software. Since the early 2000’s, the predecessors of the Group focused on the production of industrial automation instruments and horological instruments. Leveraging on the Group’s experience and expertise in high precision mechanical production and the integration of such technology with microelectrical technology, the Group began the large scale manufacturing of middle to high-end industrial automation instruments and technology products in 2004. The Directors believe that high precision industrial automation instruments and technology products play a pivotal role in modern industrial production processes and are used to monitor and control by detecting and assessing data derived from production processes to indicate their real-time condition and accordingly perform certain mechanical procedures (such as the opening and closing of valves) to ensure the safe and orderly operation of production lines. The Group has made a number of breakthroughs in its research, design and development of high precision industrial automation instruments and technology products. The Group successfully developed the WP-L Intelligent natural gas flow controller, which was awarded the Fujian Province

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Technological Advancement Prize by the Fujian provincial government of the PRC and was approved to be included in the State Key Product Project. Please refer to the sub-section headed “Awards, Recognition and Accreditation” in this section for details.

High precision industrial automation instrument and technology products manufactured by the Group for the middle to high-end market segments have been applied in an extensive range of industries that utilise automated production processes, including the aerospace, oil and gas, petrochemical, power generation, mining and metallurgy, iron and steel, automotive, food and beverage, pharmaceutical, papermaking and machinery industries.

The Group’s horological instrument business accounted for 35.9%, [29.1%] and [25.4]% of its turnover during the Track Record Period. During the Track Record Period, the Group developed the WP1015, P68, P69, P79 and WP1013 all plastic quartz watch movements series. The use of all plastic parts and components in quartz watch movement allows the Group to mass produce parts and components such as die-cast wheel using automated manufacturing processes. This effectively reduced the market share of foreign manufacturers of all plastic quartz watch movements in the PRC.

The global quartz watch movement market is an oligopoly market dominated by Seiko and Citizen, and to a lesser extent, the Group and two other leading PRC manufacturers. According to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009, the Group is one of the three industry leaders amongst only [10] PRC quartz watch movement manufacturers and the only enterprise which is leading industry innovations in China with products that are of international quality standards. The Group sold approximately [95.8] million pieces of quartz watch movements in 2008, representing approximately 10.6% to 11.9% of total global output and approximately [23.9%] of total output by PRC manufacturers.

The five largest customers of the Group’s products (who are all distributors with distributorship agreements with the Group) accounted for an aggregate of approximately 47.0%, [33.2%] and [33.2]%, of its total sales during the Track Record Period. During the same period, the largest customer of the Group’s products accounted for approximately 12.0%, [8.6%] and [8.3]%, respectively, of its total sales.

The Group is headquartered in Hong Kong and has its primary production facilities in Fuzhou, which is well-connected to major road and transport networks and sea ports. The Group has achieved steady and stable sales growth during the Track Record Period. For the three financial years ended 30 June 2009, the Group recorded revenue of RMB479.3 million, RMB600.9 million and RMB[620.0] million, respectively, representing a CAGR of approximately [13.73]%

The Sichuan earthquake in May 2008 did not adversely affect the Group’s raw material supplies, productions or sales. To the best knowledge of the Directors, none of the Group’s distributors, sub-distributors or suppliers was adversely affected by the Sichuan earthquake in May 2008. None of the Group’s suppliers is located in Sichuan Province. The distributor who is responsible for the Sichuan region is located relatively far from the earthquake epicenter and hence its sales has not been adversely affected by the earthquake.

The Directors believe that the growth of the Group can be attributable to:

- (i) market leadership;

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- (ii) strong revenue growth and profitability over the Track Record Period;
- (iii) advanced technological know-how and the use of mechatronic technology and high precision mechanical production;
- (iv) diversified product portfolio with wide an application base across multiple industries;
- (v) experienced management team and precision mechanical production team;
- (vi) an end-user base for its high precision industrial automation instrument and technology products of well-known companies; and
- (vii) its established sales and distribution network.

Detailed discussion of the Group’s competitive strengths are set out in the sub-section headed “Strengths of the Group” in this section. The Directors believe that the sales of the Group will continue to grow as it continues to penetrate the market, and its growth rate will gradually stabilise as the Group’s business scale continues to increase.

The Group is one of the market leaders in the automation instrument industry and is engaged in the manufacturing and sale of two distinct but complementary business lines, namely the manufacture and sale under its own Wide Plus brand of: (i) high precision industrial automation instrument and technology products and (ii) horological instruments.

The following table shows the breakdown of the Group’s turnover by major product categories and by geographical locations for each of the three financial years ended 30 June 2009.

	Year ended 30 June					
	% of the Group’s total 2007 turnover RMB’000		% of the Group’s total 2008 turnover RMB’000		% of the Group’s total 2009 turnover RMB’000	
<b>High precision industrial automation instrument and technology products</b>						
Detectors	[94,490]	[19.7%]	[143,331]	[23.9%]	[188,115]	[30.3%]
Indicators	91,588	[19.1%]	[133,607]	[22.2%]	[136,840]	[22.1%]
Controllers	[121,261]	[25.3%]	[148,290]	[24.7%]	[135,125]	[21.8%]
Others	[12]	[—]	[887]	[0.1%]	[2,345]	[0.4%]
<b>Sub-total</b>	<b><u>307,351</u></b>	<b><u>64.1%</u></b>	<b><u>426,115</u></b>	<b><u>70.9%</u></b>	<b><u>462,425</u></b>	<b><u>[74.6%]</u></b>
<b>Horological instruments</b>						
2 hands	18,097	3.8%	[20,811]	[3.5%]	[10,910]	[1.8%]
3 hands	119,355	24.9%	[115,271]	[19.2%]	[126,410]	[20.4%]
Calendar	34,448	7.2%	[38,707]	[6.4%]	[20,258]	[3.2%]
<b>Sub-total</b>	<b><u>171,900</u></b>	<b><u>35.9%</u></b>	<b><u>174,789</u></b>	<b><u>29.1%</u></b>	<b><u>157,578</u></b>	<b><u>[25.4%]</u></b>
<b>Total turnover</b>	<b><u>479,251</u></b>	<b><u>100%</u></b>	<b><u>600,904</u></b>	<b><u>100%</u></b>	<b><u>620,003</u></b>	<b><u>[100%]</u></b>

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	Year ended 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC (excluding Hong Kong)	415,712	519,657	557,493
Hong Kong	<u>63,639</u>	<u>81,247</u>	<u>62,510</u>
<b>TOTAL</b>	<b><u>479,351</u></b>	<b><u>600,904</u></b>	<b><u>620,003</u></b>

The following table shows the Group’s turnover, gross profit, net profit, gross profit margin and net profit margin of the Group for each of the three financial years ended 30 June 2009.

	Year ended 30 June					
	2007	Profit margin	2008	Profit margin	2009	Profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Turnover	479,251		600,904		[620,003]	
Gross profit	222,042	46.3%	282,974	47.1%	[296,241]	[47.8]%
Profit for the year	184,645	38.5%	212,072	35.3%	[199,957]	[32.3]%

### High Precision Industrial Automation Instrument and Technology Products

The manufacture and sale of high precision industrial automation instrument and technology products is the principal business of the Group, from which it derived approximately 64.1%, 70.9% and [74.6]% of its turnover for each of the years during the Track Record Period.

The Group produces high precision industrial automation instrument and the technology products that detect, measure and analyse information (such as temperature, water pressure, or other variables) related to certain industrial production processes, allowing the end-users of the Group’s products (usually large industrial or manufacturing companies) to more effectively control and manage certain parts of their production processes. The Directors believe that high precision industrial automation instrument and technology products play a pivotal role in modern industrial production processes.

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The following table shows the breakdown of the turnover derived by the Group from the sales of each type of high precision industrial automation instrument and technology products for the three financial years ended 30 June 2009.

	Year ended 30 June					
	% of the Group's total turnover		% of the Group's total turnover		% of the Group's total turnover	
	2007 RMB'000		2008 RMB'000		2009 RMB'000	
<b>High precision industrial automation instrument and technology products</b>						
Detectors	[94,490]	[19.7%]	[143,331]	[23.9%]	[188,115]	[30.3%]
Indicators	91,588	[19.1%]	[133,607]	[22.2%]	[136,840]	[22.1%]
Controllers	[121,261]	[25.3%]	[148,290]	[24.7%]	[135,125]	[21.8%]
Others	[12]	[—]	[887]	[0.1%]	[2,345]	[0.4%]
<b>Total</b>	<b><u>307,351</u></b>	<b><u>64.1%</u></b>	<b><u>426,115</u></b>	<b><u>70.9%</u></b>	<b><u>462,425</u></b>	<b><u>[74.6%]</u></b>

The production processes of high precision industrial automation instrument and technology products and horological instruments are interconnected at the early stages, and certain production processes for these two types of production are conducting in common workshops in which mechatronic technology is applied. The Group produces three major categories of high precision industrial automation instrument and technology products with over 100 different series to meet end-users' different requirements. Further modifications and adjustments to the Group's products can be made if and when required by end-users.

The Group's high precision industrial automation instrument and technology products have been applied in an extensive range of industries that use automated production processes, including aerospace, oil and gas, petrochemical, power generation, mining and metallurgy, iron and steel, automotive, food and beverage, pharmaceutical, papermaking and machinery industries. The key end-users of the Group's high precision industrial automation instrument and technology products include well-known enterprises in the PRC such as Member of Angang Steel Company Ltd. (鞍鋼股份有限公司設備處), Minhang Power Plant of Shanghai Electric Power Co., Ltd. (上海電力股份有限公司閔行發電廠), 1st Branch Corporation of Beijing Yanjing Brewery Co., Ltd. (北京燕京啤酒股份有限公司一分公司), China FAW Group Corporation (中國第一汽車集團公司), Subsidiary of Tonghua Iron & Steel Group Co., Ltd. (通化鋼鐵股份有限公司), Member of Daqing Oilfield Materials and Equipment Group (大慶油田物資集團機電設備公司), Tarim Oilfield Co. of China National Petroleum Corp. (中國石油塔里木油田公司), Changchun Natural Gas Co., Ltd. (長春天然氣有限責任公司), Beijing Yanshan Jilian Petrochemical Company (北京燕山集聯化工公司) and Fujian Nanping Paper Co., Ltd (福建省南紙股份有限公司). The Group's high precision industrial automation instrument and technology products are sold to end-users through a chain of distributors, and not directly by the Group. These distributors are also primarily responsible for any after-sales services. The Group, through providing technical solutions, provides on-site training courses to staff of end-users and assists the distributors in originating end-users and maintaining frequent and regular interactions with end-users.

The Group has been actively involved in the establishment of 42 national and international industry standards covering production safety, detection, testing, recording, electromagnetic compatibility and other relevant standards concerning the production and manufacturing of high precision automation instrument and technology products in the PRC.

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### Horological Instruments

Sales of the horological instruments manufactured by the Group accounted for 35.9%, [29.1%] and [25.4]% of its total turnover during the Track Record Period. The Group developed 2-hands, 3-hands and calendar watch movement products. The Group is able to mass produce all-plastic parts and components such as die-cast wheel using automated manufacturing processes.

The following table shows the sales of each major type of horological instruments for the three financial years ended 30 June 2009.

	Year ended 30 June					
	2007		2008		2009	
	<i>RMB'000</i>	<i>% of the Group's total turnover</i>	<i>RMB'000</i>	<i>% of the Group's total turnover</i>	<i>RMB'000</i>	<i>% of the Group's total turnover</i>
<b>Horological instruments</b>						
Two hands	18,097	3.8%	[20,811]	[3.5%]	[10,910]	[1.8%]
Three hands	119,355	24.9%	[115,271]	[19.2%]	[126,410]	[20.4%]
Calendar	34,448	7.2%	[38,707]	[6.4%]	[20,258]	[3.2%]
<b>Total</b>	<b><u>171,900</u></b>	<b><u>35.9%</u></b>	<b><u>174,789</u></b>	<b><u>29.1%</u></b>	<b><u>[157,578]</u></b>	<b><u>[25.4%]</u></b>

The Group has been actively involved in the establishment of 3 national and international industry standards concerning the production and manufacturing of horological instruments products in the PRC.

### Research and Development

The Group's research, design and development team has cooperated with various educational institutions and universities, such as Fuzhou University (福州大學), Tianjin University (天津大學) and South China University of Technology (華南理工大學) in the development of specialised integrated circuits, detection systems for oil pipeline leakage and high precision automated production lines for horological instruments. The Directors believe that the Group has established an efficient and skilled precision mechanical production team and research, design and development team. Total research and development expenses represented 0.35%, [0.55%] and [1.17]% of the Group's total turnover during the Track Record Period.

The Group has also established a technical advisory committee consisting of a number of industry experts recruited by the Group to provide technical guidance and expertise in its research, design and development activities.

The Group has registered 31 patents (including 10 design patents and 21 utility model patents) and 4 software copyrights in the PRC. As confirmed by the PRC legal advisers of the Group, according to relevant laws and regulations in the PRC, design patents refer to the design of the shape and colour applied to an industrial product. Utility model patents refer to the manufacturing method and structure and usage of the products concerned. All the design patents and utility model patents that the Group has registered were internally developed by the Group.

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### Awards and Certifications

One of the Group’s products, Intelligent Flow Controller for Natural Gas (天然氣智能流量控制儀), was awarded “Grade Three of Fujian Science and Technology Advancement Award (福建省科學技術獎三等獎)” by Fujian provincial government of the PRC and was approved to be included in the State Key Product Project. The Group was also awarded “Advanced Technology Enterprise with Foreign Investment” (外商投資先進技術企業) by Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省對外貿易經濟合作廳) and “High-Tech Enterprise” (高新技術企業) by Fujian Provincial Department of Science and Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial State Tax Bureau (福建省國家稅務局) and Fujian Provincial Local Tax Bureau (福建省地方稅務局) in recognition of its research, design and development achievements.

The Group has also obtained the European Union CE certification, Russian GOST-R certification and Kazakhstan GOST-K certification for certain of its products that are in conformity with the mandatory health and safety, technical and quality requirements of the European Union, Russia and Kazakhstan, which allow the Group’s products to bear the CE Mark, GOST-R Mark and GOST-K Mark and to be sold in these jurisdictions. In particular, the Group has obtained in 2007 the ATEX product certification for its pressure/differential pressure transmitters that are intended for use in potentially explosive atmospheres.

The Group’s industrial automation instrument business was awarded an ISO 9001:2000 certification in 2006 by the Quality Assurance Centre of China Association for Quality and in 2007 by National Quality Assurance Limited of the United Kingdom. The horological instrument business was granted with the ISO 9001:2000 certification in 2004 and 2007.

Please refer to the sub-section headed “Awards, Recognition and Accreditation” in this document for further details.

### STRENGTHS OF THE GROUP

The Directors believe that the Group’s historical successes and future prospects are underpinned by a combination of competitive strengths, including:

#### Market Leadership

The Group is one of the market leaders in the manufacturing and sale of two distinct but complementary business lines under the Group’s Wide Plus brand comprising: (i) high precision industrial automation instrument and technology products; and (ii) all-plastic quartz watch movements.

According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, the Group was the leading PRC-based manufacturer of pressure transmitters (a type of industrial automation instrument) and the PRC industry leader for indicators and controllers (other types of industrial automation instruments) in term of sales volume in 2006. The Group was also one of the top three manufacturers of quartz watch movement in the PRC, according to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009.

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### **Strong Revenue Growth and Profitability over the Track Record Period**

During the Track Record Period, the Group’s total turnover was approximately RMB479.3 million, RMB600.9 million and RMB[620.0] million, respectively, representing a CAGR of approximately [13.73]%. The Group’s gross profit was approximately RMB222.0 million, RMB283.0 million and RMB[296.2] million, respectively during the Track Record Period, representing a CAGR of approximately [15.5]%. During the same period, the Group recorded net profits attributable to equity holders of approximately RMB184.6 million, RMB212.1 million and RMB[200.0] million, respectively, representing a CAGR of approximately [4.1]%.

### **Advanced Technological Know-how and Use of Mechatronic Technology and High Precision Mechanical Production**

The Group was awarded the “Advanced Technology Enterprise with Foreign Investment (外商投資先進技術企業)” by Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省對外貿易經濟合作廳) and “High-Tech Enterprise (高新技術企業)” by Fujian Provincial Department of Science and Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial State Tax Bureau (福建省國家稅務局) and Fujian Provincial Local Tax Bureau (福建省地方稅務局) in recognition of its research, design and development achievements. Please refer to the sub-section headed “Awards, Recognition and Accreditation” in this section for details.

The Group collaborates with universities in the PRC such as Fuzhou University (福州大學), Tianjin University (天津大學) and South China University of Technology (華南理工大學) in the development of specialised integrated circuits, detection systems for oil pipeline leakage and high precision automated production lines for horological instruments.

The Group’s products utilise mechatronics technology. Mechatronic technology, the integration of high precision mechanical and micro-electronic technologies, is applicable to the manufacture of high precision industrial automation instrument and technology products and horological instruments as their manufacturing processes are interconnected at the early stages. The Group utilises a common workshop for high precision mechanical processing and associated adjustments and modifications to these processes which enables it to increase its efficiency, achieve economies of scale and lower the production costs for many products of the Group. Please refer to the section headed “Business — High Precision Mechanical Production” in this document for further details.

The Directors believe that its precision mechanical production capability, together with its high precision mechanical production team, enables the Group to produce high precision industrial automation instrument and technology products. The Group’s high precision mechanical production team accumulated its expertise and experience by having each of its team members specialise and concentrate on one of the precision mechanical processing tasks in its precision mechanical production workshop, including rough processing, electric spark processing, wire-cutting processing, CNC processing centre, grinding processing, tooling, measuring, heat treatment processing, lathe, bench work, and mechanical and electronic tooling. Skills specialisation allows the Group’s technicians to accumulate relevant experience and expertise through repeated practice during the production process. By having skilled technicians and with the aid of precision equipments and machinery, the Group ensures the requisite level of precision and quality of its products during the manufacturing processes, which include cutting, moulding, thermal treatment and inspection. The Group



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upgrades its machinery and equipments (some of which are not commercially available as they require customisations involving proprietary process know-how) from time to time to ensure the development of its new products utilise leading technologies and equipments.

The Directors regard mathematical modelling as an important area for research, design and development of the Group as it greatly assists in the mechanical design of hardware such as pressure/differential pressure transmitters and in the design and programming of software. The Group can develop mathematical models by conducting experiments using different hardware or software, collating data generated by these experiments, perform analysis on these data and build up mathematical models to explain certain phenomena such as mechanical distortions as a result of pressure, temperature or liquid flow changes which such hardware or software is subject to. Mathematical models can be used to select optimal results from these experiments and enable the Group to identify the hardware and software that can produce the highest precision, stability and sensitivity. As a result, the Group has successfully developed various software programmes applicable for industrial automation devices used in the production process. Please refer to the section headed “Statutory and General Information — Intellectual property rights” in Appendix VI to this document for more details.

Some of the Group’s products have acquired the European Union CE Mark, Russia GOST-R Mark, Kazakhstan GOST-K Mark, and have met the necessary requirements for entering the respective markets of these countries.

With the Group’s research, design and development capabilities, the Group aims to design and manufacture reliable, stable and high precision products of high quality.

### **Diversified Product Portfolio with Wide Application Base Across Multiple Industries**

The Group has a diversified and comprehensive product portfolio. The Group’s high precision industrial automation instrument and technology products have already been applied in a wide range of industrial applications including the aerospace, oil and gas, petrochemical, power generation, mining and metallurgy, iron and steel, automotive, food and beverage, pharmaceutical, papermaking and machinery industries. The Directors believe, therefore, that the Group is well positioned to benefit from different growth opportunities presented in different industries, reducing its exposure to any particular sector or industry.

The Group aims to upgrade and enhance its products and move to higher-end products. The Directors believe that the Group has upgraded and enhanced its products by moving from the manufacture of the relatively lower-end to higher-end products in order to satisfy higher end-users’ requirements in terms of quality, precision, reliability and safety, which has allowed the Group to expand into new industries and to attract additional demand from new customers. The Group had been selected to provide certain industrial automation instruments for the launching of satellites and fuel refilling system for rockets, and applications in the petrochemical, metallurgy, environmental protection and power generation industries.

The Directors believe that the ability of the Group to change its production mix and to reallocate its resources to cater for evolving market demands and opportunities enable the Group to better adapt to changes in the economic and market conditions in any particular market or sector.

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### Experienced Management Team and Precision Mechanical Production Team

The Group has an experienced management team and a team of trained production personnel. The members of the Group’s senior management have an average of more than 15 years of experience in the industrial automation instrument and horological instrument industries under the leadership of the Company’s chairman. The Company’s chairman, Mr. Wong, has over 20 years of experience in these industries and was granted four utility model patents and two design patents in relation to quartz watch movements. In recognition of his strengths in technical expertise and research, design and development, Mr. Wong was commended as one of the top one hundred young factory managers in China in 1985 and a product innovated by him was awarded third prize in the technological advancement award by the National Science and Technology Advancement Award Adjudication Committee in 1990.

Set out below are the biography of key management team of the Group:

**Mr. Zou Chong (鄒崇)**, aged 39, the executive Director and the deputy general manager of the Group graduated from the Sichuan University (四川大學) in 1991 specialising in computer application (計算機應用專業). In 1991, Mr. Zou joined Fuzhou Shanglun as a technician. In 2003, he joined Fujian Wide Plus as a deputy general manager. He had participated in the development of the “WP-series Multi-channel Embedded-type Colored Paperless Recorder” (WP-系列多通道嵌入式彩色顯示無紙記錄儀), which, together with Mr. Tang Chong Sen, was awarded the “Grade Three of Fuzhou Science and Technology Advancement Award (福州市科學技術進步三等獎)” by Fuzhou Municipal Government in 2006. Mr. Zou is responsible for the technical service centre, system integration, purchasing and sales and marketing of automation instruments of the Group.

**Mr. Su Fang Zhong (蘇方中)**, aged 59, the executive Director and the deputy general manager of the Group graduated from Fujian Broadcasting Television University (福建廣播電視大學) in 1990 specializing in financial accounting (財務會計). In 1991, Mr. Su successfully completed quality management (計量管理) training provided by the State Bureau of Technical Supervision (國家技術監督局). In 1990, Mr. Su worked as an assistant engineer of Fuzhou Watch Factory (福州手錶廠). In 2003, he was approved as an electrical engineer (intermediate level) (中級電子工程師) by the Intermediate and Primary Level Adjudication Committee of the Fuzhou City Rural Enterprise Engineering Department (福州市鄉鎮企業工程系列中、初級評委會). Mr. Su was recognized by the Fuzhou Bureau of Light Industry (福州市輕工業局) as an outstanding performer in the technological development of light industry system (輕工系統技術開發優秀工作者) in 1989 and also as a pioneer worker in production management (生產管理先進工作者) in 1991. In 2003, he joined Fujian Wide Plus as a deputy general manager. Mr. Su is responsible for the warehouse management, production workshops and quality control of the Group.

**Mr. Tang Chong Sen (唐崇森)**, aged 69, graduated from the Mechanical Engineering Department (電機系) of Harbin Institute of Technology (哈爾濱工業大學) in 1964 specialising in electrical measurement technology (電氣測量技術專業). In 1992, he was an associate professor of the Electrical Engineering Department of Fuzhou University specializing in industrial electrical automation system (工業電氣自動化). In 1995, Mr. Tang joined Fuzhou Shanglun as a chief engineer (electrical). In 2003, he joined Fujian Wide Plus as a chief engineer. Mr. Tang had been the researcher of various provincial new product development projects. In 2002, the WP-series Intelligent Flow Controller for Natural Gas (WP-系列天然氣智能流量控制儀) co-developed by Mr. Tang also received the “Grade Three of Fujian Science

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and Technology Advancement Award” by Fujian Provincial Government of the PRC (福建省科學技術獎三等獎). In 2006, the “WP-series Multi-channel Embedded-type Colored Paperless Recorder” which was co-developed by Mr. Tang and Mr. Zou Chong was awarded “Grade Three of Fuzhou Science and Technology Advancement Award (福州市科學技術進步三等獎)” by Fuzhou Municipal Government. Mr. Tang is the chief electrical engineer of the Group and is responsible for overseeing the design and processing of electrical products and electronic software research and development of the Group.

**Mr. Gao Wen Jiang (高文江)**, aged 67, graduated from the Agricultural Machinery Department (農業機械系) of the Fujian Institute of Agriculture (福建農學院) specialising in agricultural mechanisation (農業機械化專業) in 1964. In 1990, Mr. Gao was the deputy technical factory manager of Nanchang Watch Factory (南昌手錶廠). From 1993 to 2004, he was the deputy general manager of Guang Yu Electronic Industrial Co., Ltd. (廣宇電子實業有限公司). Mr. Gao joined Fujian Wide Plus as a chief mechanical engineer in 2004 and has been holding the same position for the Group. He is responsible for overseeing the crafts processing and high precision mechanical research and development of the Group.

The Group’s high precision mechanical production team developed its precision mechanical production capability by having each of its team members to specialise and to concentrate on a particular precision mechanical processing task, allowing each of them to accumulate experience and expertise through repetitive practices during the production process.

The Directors believe that the combination of rich industry knowledge, experience and expertise of the Group’s management team, its high precision mechanical production team and its workforce have been, and will continue to be, integral to its success.

### **Broad End-Users Base for its High Precision Industrial Automation Instrument and Technology Products Consisting of Well-known Companies and Established Sales and Distribution Network**

The Group’s existing portfolio of end-users for its high precision industrial automation instrument and technology products consists of well-known companies such as Member of Angang Steel Company Ltd. (鞍鋼股份有限公司設備處), Minhang Power Plant of Shanghai Electric Power Co., Ltd. (上海電力股份有限公司閔行發電廠), 1st Branch Corporation of Beijing Yanjing Brewery Co., Ltd. (北京燕京啤酒股份有限公司一分公司), China FAW Group Corporation (中國第一汽車集團公司), Subsidiary of Tonghua Iron & Steel Group Co., Ltd. (通化鋼鐵股份有限公司), Member of Daqing Oilfield Materials and Equipment Group (大慶油田物資集團機電設備公司), Tarim Oilfield Co. of China National Petroleum Corp. (中國石油塔里木油田公司), Changchun Naturagas Co., Ltd. (長春天然氣有限責任公司), Beijing Yanshan Jilian Petrochemical Company (北京燕山集聯化工公司) and Fujian Nanping Paper Co., Ltd. (福建省南紙股份有限公司). The Group’s industrial automation instrument and technology products are sold through a chain of distributors to end-users, but not directly by the Group. These distributors are also primarily responsible for any after-sales services to end-users.

Throughout the years, the Group has established an extensive sales and distribution network in relation to its industrial automation instrument business through its distributors and sub-distributors. [As at the Latest Practicable Date], the Group has engaged 16 distributors who sell its industrial automation products either directly or indirectly through over 300 sub-distributors to end-users in the PRC.

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### FUTURE PLAN AND STRATEGY

The Group aims to become a leading supplier of a comprehensive range of industrial automation products in the PRC. The Group also plans to become the largest manufacturer of horological instruments in the PRC with a comprehensive range of quartz watch movements models. The Group plans to carry out or is in the process of carrying out the following strategies:

#### **Expand and Enhance the Group’s Products Range to Cover a Wider Variety of High Quality, Higher-Margin and Specialised Products**

##### ***Overview***

The Directors believe that economic growth and growth in investment within the PRC will further increase the demand for industrial automation instrument generally. Through years of development, the Group has successfully expanded and upgraded its products range, allowing it to break into new industries and attract new customers.

The Group aims to continue to leverage on its technological and design capabilities to produce technologically advanced and high quality industrial automation instruments. The technological trend in the industrial automation instrument industry is to manufacture products that are precise, micro, digital and intelligent with the capability to be connected to the internet or intranet. As such, the Group will focus on enhancing its product’s quality, such as increasing the reliability, stability, precision and communication capability.

#### ***Construction of new manufacturing facilities for new products and expansion of production capacities of existing products***

The existing manufacturing facilities of the Group at Lot No. 15, Kuaian Road, Mawei Science and Technology Park, Fuzhou (福州馬尾科技園區快安大道15號地) is currently running at close to full capacity. The Group is now constructing its new manufacturing facilities at Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC, covering a total site area of approximately 47,665 square metres (the “New Factory”). The construction of the new manufacturing facilities were authorized to commence in October 2007. [[As at the Latest Practicable Date], the premises of the New Factory is under construction and the second stage of the New Factory is expected to be completed by the end of 2009. After the construction of the second stage of the New Factory, for the high precision industrial automation instrument and technology products, the Group will commence to install and tune the new machinery and equipment for the production of existing products of the Group during the second half of 2009 and early 2010.] The number of the production lines for the Group’s high precision industrial automation instrument and technology products will be increased by [20] to [40]. The maximum annualized production capacity of transmitters will increase from approximately [100,000] units to approximately [200,000] units. The maximum annualized production capacity of flow meters will increase from approximately [20,000] units to approximately [50,000] units. The Group plans to increase new production lines in phases, depending on market demand for the products, and plans to add new production lines whenever the then prevailing capacity utilisation rate reaches approximately [70]–[80]%. The mass production of existing products of the Group will commence in 2010 and the capacity will be increased by phases. It is expected that such increase will be completed on or around [December 2010]. For the horological instrument products, the Group plans to increase the production capacity of the horological instrument products by increasing the number of

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production lines from [24] to [39]. Consequently, the maximum annualized production capacity of watch movements will increase from approximately [100] million units to approximately [200] million units. The Group plans to add distributors to increase the sales of its horological instrument products. The Group plans to increase its production capacity in phases to satisfy the estimated total demand as stipulated by the distributorship agreements signed with distributors on annual basis for horological instrument products or whenever the then prevailing capacity utilisation rate reaches approximately [70–80]%. The Group also planned to add production capacity in phases, commencing from around June 2008 with the planned capacity increase expected to be completed on or about December [2010]. The Group may speed up or slow down the planned new capacity additions in the event that actual future demand for its products differs from current management expectations. The Group applies its internal resources and the net proceeds of the convertible bonds issued on 8 July 2009 for expansion of production capacity of existing products.

[The third stage of the New Factory will be commenced in January 2010 and expected to be completed on or around December 2010. The Group will commence the acquisition, installation and tuning of the machinery and equipment for the production of the new products, such as actuators and control valves in the New Factory during the [first] half of 2011. The mass production of the new products of the Group will commence in 2012. The Group will commence the acquisition, installation and tuning of the machinery and equipment for PLC products in the New Factory during the first half of 2011. The mass production of the PLC products will commence in 2012.] The total cost of establishment of production facilities for the Group’s new products is approximately RMB[401] million which will be financed by the net proceeds of the [●].

### ***Expansion of Regional Technical Service Centres and Professional Service Centres***

[The Group plans to add 17 regional technical service centres and 12 professional service centres to better support distributors and their customers which will, in turn, increase the sale of its industrial automation instruments products. Additionally, the Company also plans to continue to add distributors, and through them and sub-distributors to further increase sales.]

### ***[Production and development of new product***

The Group plans to commence the production of actuators and PLC control systems at the new manufacturing facilities. The Group will commence production of actuators and PLC control systems in 2012. The annualized capacity for actuators will be 50,000 units and for PLC control systems will be 100,000 units.]

The Group also plans to establish a high precision production centre consisting of production lines for electrical components (電氣件), straight travel electrical actuator (直行程執行器), quarter-turn electrical actuators (角行程執行器) and acquiring mechanical processing equipments including hobbing machine, lathe, CNC lathe, milling machine, CNC processing centre and heat treatment processing facility.

As the industrial automation instrument and horological instrument industries further develop and improve, the products of the Group have to continually meet the technological and design requirements sought by its end-users. The Group has invested in the development of new products including supersonic waves flow meters, supersonic liquid level transmitter, RADAR level measurement instrument, AC power transmission controller,

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digital data recorder, gas-activated actuator, intelligent control valve, PLC (programmable logic control) systems and ZIGBEE wireless network communications technology. The development and production of the aforesaid new products will be financed by internal resources of the Group.

By expanding the Group’s product range, the Directors believe the Group can solidify its market leadership position in the PRC while enhancing its market share.

### **Continue to Invest in Research, Design and Development Capabilities and Strengthen the Group’s Technological Capabilities**

While the Group only spent approximately RMB1.7 million, RMB3.3 million and RMB[7.2] million in aggregate on research and development during the Track Record Period, which amounts to only approximately 0.35%, 0.55% and [1.17]% of its total turnover, respectively, the Directors believe that one of the key elements for the future success of the Group is to continue and increase its investment in research, design and development capability to improve the quality and technological capabilities of its products and expand its product portfolio.

The Group will continue to recruit highly qualified personnel with the requisite experience and expertise for its design, research and development department. The Group’s continuing collaborations with Fuzhou University, Tianjin University and South China University of Technology not only enhance the development of new technologies and products, but also promote the technical exchanges between the Group’s personnel and university staff, who shall provide training to the Group. In addition, the Group has established a technical advisory committee consisting of industry experts who were sought, retained and recruited by the Group to provide technical guidance and expertise in its research, design and development activities. The Directors believe that these measures will help the Group to attract and retain quality people for its business and help the Group strengthen its research, design and development capabilities.

### **Pursue Strategic Acquisitions and Investments**

The Group will contemplate strategic acquisitions and investments in the future to strengthen and complement its existing business if and when appropriate.

[As at the Latest Practicable Date], the Group has not identified any acquisition targets. Strategic acquisitions or investments for the Group will generally need to meet the following criteria: (i) their products are supplementary to the Group’s existing products and enhance the Group’s overall products portfolio, (ii) their management and technical expertise can help enhance the Group’s technical capabilities, and/or (iii) where the Group’s production capacity is constrained, their production capacity can help increase the Group’s overall production capacity. The aforesaid acquisition and investments will be financed by internal resources of the Group.

## **BUSINESS OPERATION AND PRODUCTS**

The Group is one of the market leaders in two distinct but complementary business lines under the Group’s Wide Plus brand, namely the manufacture and sale of: (i) high precision industrial automation instrument and technology products; and (ii) horological instruments, namely, multi-functional all plastic quartz watch movements.

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The Directors consider that, the Group’s product design, composition of select specialized raw materials, production process and manufacturing equipment all tend to be proprietary in nature. Furthermore, the high proportion of direct material costs in the Group’s cost structure during the Track Record Period is a cost control measure to ensure that the Group can enjoy a profitable margin. Such fact should distinguish the Group from a typical assembler, which normally spends less resource in areas of product development and research and development. Therefore, the Directors consider that the Group should be regarded as a manufacturer, instead of being regarded as an assembler.

According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated [March] 2008, the Group was the leading PRC-based manufacturer of transmitters (a type of industrial automation instrument), and the industry leader for indicators and controllers (other types of industrial automation instrument) in term of sales volume in China in 2006. The Group was also one of the three quartz watch movements industry leaders in the PRC, according to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated [July] 2009.

### HIGH PRECISION INDUSTRIAL AUTOMATION INSTRUMENT AND TECHNOLOGY PRODUCTS

The Group produces high precision industrial automation instruments that detect, measure and analyse information (such as temperature, water pressure, or other variables) related to certain industrial production processes, allowing the end-users of the Group’s products (usually large industrial or manufacturing companies) to more effectively control and manage certain parts of their production processes.

The Group’s high precision industrial automation instrument and technology products are sold through a chain of distributors, but not directly by the Group. These distributors are also primarily responsible for any after-sales services. The Group maintains regular contacts with end-users through marketing and technical support services to distributors and end-users. In recognition of the Group’s leading position in the industry, the Group was selected to provide certain of its high precision industrial automation instrument and technology product that were used for the launching of Shenzhou spacecrafts.

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The Group mainly designs, produces and manufactures the following categories of high precision industrial automation instrument and technology products:

- (i) Detector (檢測儀錶) — an instrument that detects and assesses pressure, temperature, flow and liquid level by converting information received into data that can be transmitted and analysed;
- (ii) Indicator (顯示儀錶) — an instrument that indicates the status of a production processes either by a set of numbers or by other signals after receiving and analysing data transmitted to it; and
- (iii) Controller (控制調節儀錶) — an instrument, such as a valve, that can change the flow of gas or liquid, pressure and liquid levels upon input from a control system.

The following table shows the breakdown of the turnover derived by the Group from sales of each type of high precision industrial automation instrument and technology products for the three financial years ended 30 June 2009.

	Year ended 30 June					
	% of the Group's total 2007		% of the Group's total 2008		% of the Group's total 2009	
	RMB'000	turnover	RMB'000	turnover	RMB'000	turnover
<b>High precision industrial automation instrument and technology products</b>						
Detectors	[94,490]	[19.7]%	[143,331]	[23.9]%	[188,115]	[30.3]%
Indicators	[91,588]	[19.1]%	[133,607]	[22.2]%	[136,840]	[22.1]%
Controllers	[14,261]	[25.3]%	[148,290]	[24.7]%	[135,125]	[21.8]%
Others	[12]	[—]	[887]	[0.11]%	[2,345]	[0.4]%
<b>Total</b>	<b><u>307,351</u></b>	<b><u>64.1%</u></b>	<b><u>426,115</u></b>	<b><u>70.9%</u></b>	<b><u>462,425</u></b>	<b><u>74.6%</u></b>

### Products Design and Enhancement

The Group offers a wide range of high precision industrial automation instrument and technology products. The Group produces three major categories of products with over 100 different models to meet end-users' different requirements. The Group's research, design and development personnel and its distributors may make certain adjustments to the design and functions of the Group's standard products in accordance with the end-users' requirements.

The Group intends to expand its product range to include supersonic waves flow meters, supersonic liquid level transmitter, AC power transmission controller, digital data recorder, gas-activated actuator, intelligent control valve, PLC (programmable logic controllers) and ZIGBEE wireless network communications technology. Please refer to the section headed “Business — Future Plan and Strategy” in this document for further details.



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### Production

The Group was awarded ISO 9001:2000 in relation to the design, exploitation and production of digital controllers, pressure transmitters and multi-channel flow controllers, sensors both locally by the Quality Assurance Centre of China Association for Quality (“QAC”) and internationally by National Quality Assurance Limited (“NQA”) of the United Kingdom.

The Group’s products utilise mechatronics technology, namely the integration of high precision mechanical and micro-electronic technologies, to the manufacture of high precision industrial automation instrument and technology products and horological instruments as their manufacturing processes are interconnected at the early stages. The Group utilises common workshop for high precision mechanical processing and associated adjustments and modifications to these processes which enables it to increase its efficiency, achieve economies of scale and therefore lowers the production costs for many products of the Group. Please refer to the section headed “Business — High Precision Mechanical Production” in this document for further details.

The Directors believe that its precision mechanical production capability together with its high precision mechanical production team enable the Group to produce its high precision industrial automation instrument and technology products. The Group’s high precision mechanical production team accumulated its expertise and experience by having each of its team members to specialise and concentrate on one of eleven precision mechanical processing tasks in its precision mechanical production workshop, including rough processing, electric spark processing, wire-cutting processing, CNC processing centre, grinding processing, tooling, measuring, heat treatment processing, lathe, bench work, and mechanical and electronic tooling. Skills specialisation allows the Group’s technicians to accumulate relevant experience and expertise through repeated practice during the production process. By having skilled technicians and with the aid of precision equipments and machinery, the Group ensures the requisite level of precision and quality of its products during the manufacturing processes, which include cutting, moulding, thermal treatment and inspection. The Group upgrades its machinery and equipments (some of which are not commercially available as they require customisations involving proprietary process know-how) from time to time for its new products to ensure the development of its new products utilise the leading technologies and equipments.

During the Track Record Period, the Group incurred direct material costs for high precision industrial automation instrument and technology products of approximately RMB146.2 million, RMB[199.5] million and RMB[213.5] million, respectively, which represented approximately 93.8%, [94.2]% and [94.2]%, respectively, of the total cost of sales incurred for high precision industrial automation instrument and technology products of the Group.

During the Track Record Period, the Group incurred direct labour costs for high precision industrial automation instrument and technology products of approximately RMB3.3 million, RMB[3.4] million and RMB[4.1] million, respectively, which represented approximately 2.1%, [1.6]% and [1.8]%, respectively, of the total cost of sales incurred for high precision industrial automation instrument and technology products of the Group. The Directors consider that the relatively low proportion of direct labour cost for high precision industrial automation instrument and technology products incurred by the Group during the Track Record Period was attributable to the following reasons: (i) the Group utilises common workshop for high precision mechanical processing and associated adjustments and modifications to these processes which enables it to increase its efficiency, achieve economies of scale and therefore lowers the production costs for many products of the Group; (ii) according to the China Statistical Yearbook 2008, which is the latest publicly available information published by the National Bureau of Statistics of China (中國國

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家統計局), the annual salary per head of staff and workers engaging in manufacturing industrial sector in Fujian Province was RMB18,103 in 2007, which was lower than the national level of the same category of RMB20,884 in 2007; and (iii) majority of the production processes of the Group are automated, therefore, it is not unusual that the direct labour cost was low compared to other categories of cost of sales of the Group.

The production processes of the main categories of high precision industrial automation instrument and technology products manufactured or under development by the Group are set out below:

***Detector: Flow meters***

The first step in the production of the flow meters involves the product research, design and development, followed by production of moulds, parts and components, followed by parts and components testing, then assembly of converter and once assembled, it is subject to initial tuning and high/low temperature testing. Subsequently, the detecting tube of the detector (shaping, electrode holder, side panel, flange) is welded and polished and the lining of the detector is processed. The finished product is then assembled and undergoes intermediate testing including checking for electric leakage, insulation and resistance. After calibration and further tuning, the detector is painted and packed. The detector is subject to final quality examination before delivery.

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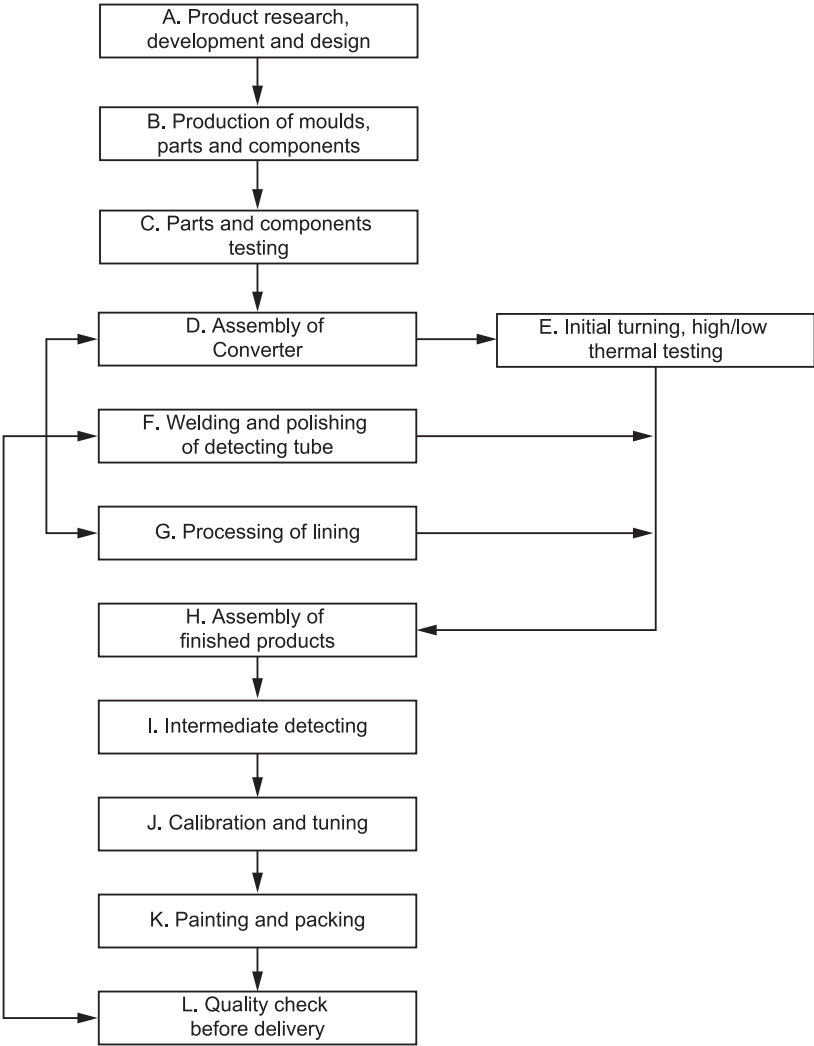
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**BUSINESS**

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The following chart shows the typical production process for the Group’s flow meters:

**Production process for flow meters**



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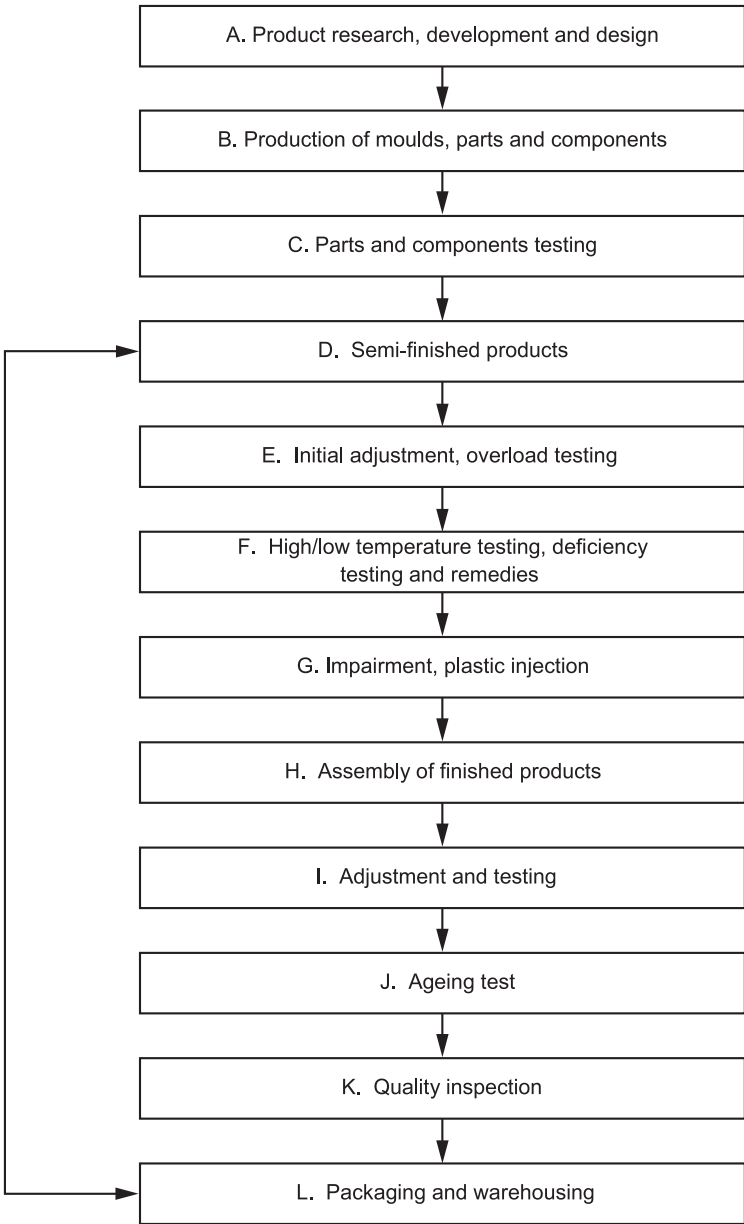
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***Detectors: Pressure/Differential pressure transmitters***

The first step in the production of pressure/differential pressure transmitters involves the product research, design and development, followed by production of moulds, parts and components, followed by parts and components testing, then semi-finished products are assembled and after initial adjustments they are subject to overload, high/low temperature and deficiency testing. After making a series of adjustments, the finished product is assembled and is subject to ageing test and quality inspection prior to packaging.

The following chart shows the typical production process for the Group’s pressure/differential pressure transmitters:

**Production process for pressure/differential pressure transmitters**



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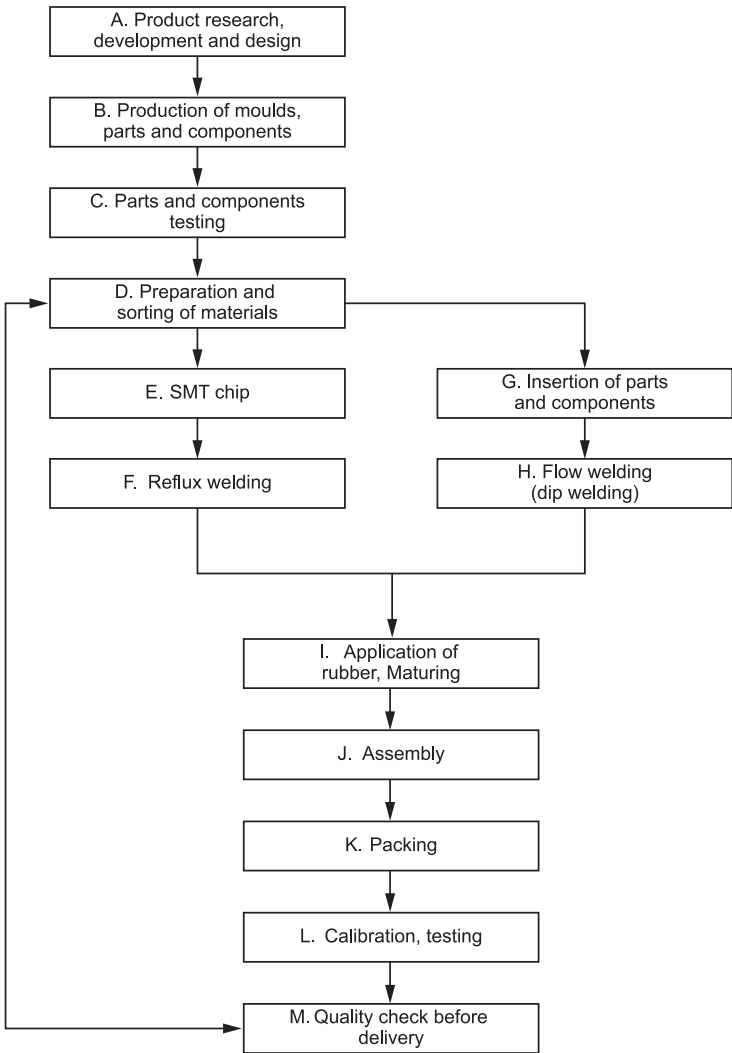
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### **Indicators and Controllers**

Indicators and controllers share common production processes and lines. The first step in the production process involves product research, design and development, followed by production of moulds, parts and components, followed by testing of parts & components. Main circuits are then produced. Small electronic components are printed by SMT machine to form SMT chips. The SMT chips and the parts and components to be inserted onto the circuit board are placed onto the circuit board by reflux welding and flow welding, respectively. The circuit board would then have rubber applied to it and subject to aging test. The main circuit board will be assembled with meter casing and then coated with an insulation cover. Thereafter, a computer controlled calibration and inspection procedures will be conducted on the finished product. Prior to delivery, a final quality control inspection is conducted.

The following chart shows the typical production process for the Group’s Indicators and Controllers:

**Production process for indicators and controllers**



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**Customers**

The Group sells its high precision industrial automation instrument and technology products to the Group’s distributors who are responsible for selling the products to other sub-distributors or to end-users directly. The distributors are the Group’s only direct customers. The Group does not sell to any end-users directly or enter into any contractual relationship with any sub-distributors. During the Track Record Period, the Group’s sales to distributors are attributable to approximately 99.96%, [99.88%] and [99.82]% of the Group’s total sales of the high precision industrial automation instrument and technology products. [As at the Latest Practicable Date], the Group has [16] distributors who in turn maintain a network of over [300] sub-distributors in the PRC.

Apart from distributors, during the Track Record Period, the Group’s sales to potential distributors are approximately 0.04%, [0.12%] and [0.18]% of the total sales of the high precision industrial automation instrument and technology products. Potential distributors are distributors with whom the Group conducts business on a transaction-to-transaction basis and may develop formal distribution relationships similar to existing distributors, the Group applies similar selection criteria to potential distributors as existing distributors with distributorship agreements. The Group conducts business with potential distributors on similar terms and conditions, including similar credit and other key terms, as outlined in distributorship agreements signed with existing distributors. The Group does not enter into any formal distributorship agreements with the potential distributors and the Group conducts its business with the potential distributors on transaction-to-transaction basis. The distributors, sub-distributors and potential distributors are Independent Third Parties.

The Group’s distributors are currently organised under 15 sales regions across the PRC, comprising Beijing, Chongqing, Fujian, Guangdong, Guangxi, Hubei, Henan, Jiangsu, Jilin, Shaanxi, Shanxi, Shanghai, Sichuan, Tianjin and Xinjiang. The following map shows the geographical distribution of the Group’s distributors and sub-distributors in China as at the [As at the Latest Practicable Date]:



Sales region	Number of distributor	Number of sub-distributor
Anhui	—	1
Beijing	1	9
Chongqing	1	5
Fujian	1	14
Gansu	—	6
Guangdong	1	25
Guangxi	1	3
Hebei	—	13
Hubei	1	34
Heilongjiang	—	9
Henan	2 <i>Note(1)</i>	12
Hunan	—	6
Inner Mongolia	—	2
Jiangsu	1	16
Jiangxi	—	8
Jilin	1	9
Liaoning	—	17
Ningxia	—	1
Shaanxi	1	32
Shanxi	1	2
Shandong	—	26
Shanghai	1	39
Sichuan	1	11
Tianjin	1	6
Xinjiang	1	12
Yunnan	—	3
Zhejiang	—	12
<b>Total</b>	<b>16</b>	<b>333</b>

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*Note (1):* There are 2 distributors in Henan province. One of them is responsible for the distribution of the high precision industrial automation instrument and technology products in Henan province and Shandong province of the PRC. The other distributor is responsible for distribution of the high precision industrial automation instrument and technology products in Henan province and Anhui province of the PRC. Both distributors have met the Group’s requirements to act as distributors of the Group and they have demonstrated that they have networks in provinces of Henan, Anhui and Shandong. According to the distributorship agreements entered into between each of the distributors in Henan province and the Group, in case of any dispute between the distributors in terms of their business concerned, the Group has the right to determine the scope of business of each of the distributors and the distributors are obliged to follow the decision of the Group, including the pricing policy laid down by the Group.

Because the Group uses distributors to sell its products to a network of sub-distributors and/or end-users, the Group does not have to bear directly a portion of the costs and personnel needed to warehouse, sell and deliver its products (though it does sell its products to these distributors at a discount). Under this distributorship system, the Group’s products can be marketed to a broader range of customers and the Group can economically serve with its own direct sales forces.

According to the best knowledge of the Directors, for the high precision industrial instrument and technology product business of the Group, the Group will assist the distributors or sub-distributors to bid for projects by providing technical support to them. In addition, the Group provides design and technical solutions to the potential end-users of the Group’s products, through the distributors or sub-distributors, in tailoring of the application of the Group’s the high precision industrial instrument and technology products for the needs of the end-users. The solutions provided by the Group are important elements for the application of the high precision industrial instrument and technology products due to the advanced technology involved. Therefore, the sale of the products by distributors will normally be enhanced by the technical solutions given by the Group. Once the distributors or sub-distributors successfully win the bid for the projects, the distributors or sub-distributors will place orders with the Group. So far as the Directors are aware that the distributors or sub-distributors follow the normal commercial terms and prevailing commercial practices that they maintain reasonable level of inventories of finished products so as to satisfy the market demand. Therefore, the distributors or sub-distributors place orders with the Group so as to maintain their inventories level for the purpose mentioned above.

Even though the Group does not have contractual relationship with the end-users of its high precision industrial automation instrument and technology products, the Group keeps itself abreast of the technological advancements through its collaboration with educational institutes as disclosed in the subsection headed “Collaboration with Educational Institutes” of this section. In addition, the Group assists its distributors or sub-distributors to bid for projects by providing technical support to them and, through distributors or sub-distributors, provides design and technical solutions to potential end-users of the Group’s products by tailoring of the Group’s high precision industrial instrument and technology products due to the advanced technology involved. Therefore, the Group can keep itself abreast of the product needs of the end-users.

To the best knowledge of the Directors, for the high precision industrial instrument and technology product, it is the fact that the Group sells the products to distributors of which they may either sell the products to sub-distributors; or system integrators/solutions providers to end-users; and/or to end-users directly. Given the special nature of the business of distributors, that is various quantity and variety of products may be distributed by distributors from time to time, the Directors are of the view that in general the closest description of the business of the distributors is regarded them as traders.

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The five largest customers of industrial automation instrument and technology products of the Group (who are all distributors) accounted for an aggregate of approximately 58.1%, [37.7%] and [33.7]% of its total sales of high precision industrial automation instrument and technology products during the Track Record Period. During the same period, the largest customer of industrial automation instrument and technology product of the Group accounted for approximately 14.3%, [8.7%] and [7.1]%, respectively, of its total sales of high precision industrial automation instrument and technology products. Revenue is recognised by the Group upon delivery of the products to the customers. The Directors believe that the Group enjoys a very stable relationship with its key customers, who are also its distributors. During the Track Record Period, it has not experienced any significant disputes with its customers or faced cancellation of any significant orders by its customers.

None of the Directors or their respective associates, or the Group’s existing Shareholders who, to the knowledge of the Directors, owns more than 5% of its issued share capital, has any interest in any of the distributors, sub-distributors or potential distributors of the Group, who are all Independent Third Parties.

### ***Selection of distributors***

The Group selects its distributors according to a range of factors which it considers important for the operation of the sales network. The Group’s distributors are responsible for interfacing with end-users at the point of sale and providing after-sales services. To become a distributor, a candidate generally must satisfy the Group’s requirement that it has relevant experience in the management and operation of sales and distribution, as well as technical capabilities relevant to the industrial automation instrument industry, good credibility and reputation, that it is validly incorporated, operating properly, and that it has sufficient financial resources and the ability to develop and operate a sales network in its designated sales region. In order to extend the Group’s sales network, these distributors further develop sub-distributor networks.

### ***Distributorship agreements***

The Group enters into distributorship agreements with each of its distributors to distribute the Group’s high precision industrial automation instrument and technology products for a term of one year which is renewable upon mutual agreement by the Group and its distributors. Renewals of such distributorship agreements are normally entered into at the end of the preceding year and contain substantially the same terms, with exception of possible changes in the sales and expansion targets and payment and credit terms.

These distributorship agreements generally include the following principal terms:

- *Geographic designation* — the distributors are authorized to sell the Group’s products within a defined geographical area.
- *Sales targets* — the distributors are expected to meet agreed sales targets and the Group has the right to terminate the agreement should the distributor fail to meet the targets.
- *Payment and credit terms* — the distributorship agreements include the payment and credit terms agreed with the distributor, determined on a case-by-case basis.



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- *Undertakings* — the distributorship agreements contain undertakings by the distributors to comply with the Group’s policies as outlined below in the sub-section headed “Management of Distributors” in this document.

The Group generally sells its products to distributors at prices that generally represent a discount to the Group’s guidance retail prices to end-customers. The Group sets the guidance retail prices to end-customers, after assessing competitive dynamics and market conditions affecting particular products, at levels the Group considers to be competitive relative to comparable products offered by foreign competitors. The Group recognises revenue upon delivery of its products to the distributors, at which time title passes to the distributors.

[As at the Latest Practicable Date], the Group has entered into distributorship agreements with 16 distributors, who are all Independent Third Parties with established sales and distribution networks.

Each distributor is bound to bear the risks and legal liabilities arising in connection with its distribution activities. However, in the event that disputes occur between the distributors and their customers, the Group cannot assure that it will not be held responsible for any action which may be brought against such distributors. The details are set out under the section headed “Risk factors” in the paragraph headed “The Group is dependent on the distributors of its high precision industrial automation instrument and technology products and has limited control over their subsequent re-sale to sub-distributors and end-users.” Up to the [Latest Practicable Date], there have not been any disputes arising between the distributors and their customers which have caused the Group to be held liable for any action brought against these distributors by their customers.

### ***Management of distributors***

The Group has, since 2006, managed its distributors through policies set out in its Distributor Management Manual (“DMM”). The DMM outlines the terms and conditions of cooperation between the Group and its distributors and stipulates that the Group shall adopt distributorship as its main sales channels, adherence by the distributors to DMM terms and conditions and that distributors shall work in a coordinated and collaborative manner with the Group to foster joint development and growth while cultivating and developing markets in an orderly fashion.

Under the DMM, the Group shall be subject to the following key obligations:

1. Advertise in major national technical and industry publications and organize or participate in, jointly with distributors as appropriate, trade shows and exhibitions to promote the Wide Plus brand and Group’s products;
2. Provide technical training and services to distributor staff as needed;
3. Organize from time to time informal discussion forums for distributors to exchange market intelligence and to foster cooperation and collaborations;
4. Assist distributors in market and sub-distributor network developments;
5. Assist in resolving distributor ownership of customers in case of disputes; and

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6. Develop and provide distributors with products which are competitive in functions and in pricing.

Under the DMM, the distributors are subject to the following key obligations:

1. Actively promote the Group’s products in designated sales regions;
2. Undertake not to sell competitor products which can be supplied by the Group (e.g. they can sell competitor products which the Group has not yet produced);
3. Diligently cultivate and develop markets and sub-distributor network within the designated sales regions;
4. With support from the Group when required, take overall responsibilities for providing technical and onsite support services in the designated sales regions;
5. Follow dispute resolution decisions of the Group in the event of conflicts with the Group’s other distributors;
6. Assist and support other distributors of the Group in a cooperative and collaborative manner upon the Group’s request;
7. Obtain prior permissions from the Group before initiating sales outside of the designated sales regions;
8. Work in cooperative and collaborative manner with the Group’s other distributors in the same sales region to avoid price cutting competition; and
9. Undertake not to sell the Group’s products at prices exceeding the guidance prices set by the Group.

The Group reserves the right to terminate the distributorship agreements in the event of breach of DMM terms and conditions by distributors.

The Directors believe that through the DMM, the Group is able to exert influence over its distributors and, indirectly through them, the sub-distributors. The Group is also able to assess the overall performance of its distributors, especially when assessed in conjunction with the actual internal sales records to the respective distributors. The Group receives from time to time performance reports from some distributors on their own initiatives summarizing their overall performance for the year and their strategy for the coming year. The reports generally summarize overall distributor performance, including ability to meet sales targets, expand market share, expand distribution network and adhere to Group guidelines on achieving minimal inventory levels operationally. Up to the [Latest Practicable Date], the Group has not terminated any distributorship agreements with any of its distributors.

The Group does not have any obsolete stock arrangements with its distributors. During the Track Record Period, the Group did not repurchase any of its products from the distributors. The Group usually allows its distributors to return its products as a result of erroneous order or for any other reasons as long as the product is returned within 3 months of purchase and that the product is in a condition suitable for re-sale. Any product returned (except for the reason of faulty products) by the distributors is subject to the Group’s approval and is also subject to a payment of

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5% of the amount payable under the contract for the purchase of the Group’s products. During the Track Record Period, the amount of products returned by the distributors is nil because the Group had proper quality control over the aforesaid products and provided adequate after-sales supporting services to the end-users.

### ***Supervision of distributors***

The Group operates a linear sales model whereby each sales region is operated by distributors who are under direct supervision of, and bound by contractual relationships with, the Group and each sales region is further sub-divided to be serviced by sub-distributors who are supervised by their respective distributors. The sub-distributors do not have any contractual relationship with the Group. The Group works closely with its distributors in sales, marketing, distribution and after-sales services in relation to its products, particularly, assisting in establishing sub-distributors network; expanding into new markets and providing technical assistance. The Group provides its distributors with product samples, technical information and support, as well as information and promotional materials in relation to any new products it launches into the market. Each distributor and the Group enter into a one-year distributorship agreement at the end of each preceding year, in which certain requirements such as a target sales are imposed upon distributors.

The Group’s sales network has aligned each distributor with its respective sub-distributors by geographical locations such that in order to purchase the Group’s products, the end-user has to purchase from either the distributors or sub-distributors of the Group. In each province, there is only one distributor (except for Henan province). The number of sub-distributors in each locality depends on the extent of the covering area and the concentration of the Group’s product end-users. All distributors are obliged to seek approval from the Group before they can distribute the Group’s product beyond their respective geographical area or the scope of their distributorship agreements. The Group also has a protection scheme for its distributors whereby any end-user successfully engaged by a distributor will be solely managed by such distributor, once the Group has been notified by such distributor. Whenever conflict arises between any of the Group’s distributors, each distributor is contractually bound to adhere to the Group’s instructions and to execute such instructions, particular in relation to the protection of the price of the Group’s products. As such, the Directors believe that the distributors under its direct supervision do not face any material competition from the sub-distributors. The Directors further believe that there is no over-concentration of distribution points within any given area which will cause material competition among the Group’s distributors and sub-distributors.

### ***Supervision of sub-distributors by the distributors***

All distributors must obtain the approval from the Group prior to authorizing a sub-distributor to sell the Group’s products. The Group takes into account of the expertise, experience, geographical coverage and financial strength of the sub-distributor before authorizing the establishment of a sub-distributor in a sales region. The Group organizes training course several times a year for the distributors and sub-distributors.

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The Group does not have direct contractual relationships with its sub-distributors. The distributors enter into separate agreements with the sub-distributors and require them to comply with the Group’s standard operating procedures, some of which include product pricing and standards of customer service. If a sub-distributor breaches any of the terms stipulated in its agreement with the distributor will be subject to penalties, such as termination of distributorship to sell the Group’s products and the termination of its authorisation to sell the Group’s products. The distributors also periodically conduct on-site inspections of randomly selected sub-distributors to ensure their compliance. In addition, the Group’s marketing personnel conduct [selling price] survey of the Group’s products and will prompt any pricing breach of sub-distributors from time to time. During the Track Record Period, the Group did not aware any material breaches of sub-distributors.

### ***Renewal and termination of distributorship agreements***

If the distributors fail to adhere to the distributorship agreements, the Group has the right to introduce new distributors into the relevant designated region or terminate the distributorship agreements.

Set out below is the table showing the changes in the number of distributors who have entered into formal distributorship agreements with the Group during the Track Record Period:

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Number of distributors at the beginning of the year	7	[15]	[16]
Addition of distributors during the year	8	[1]	[—]
Reduction of distributors during the year	—	[—]	[—]
Number of distributors at the end of the year	<u>15</u>	<u>[16]</u>	<u>[16]</u>

The Group has 2 to [5] years of business relationship with the distributors for high precision industrial automation instrument and technology products.

Set out below is the table showing the change of number of sub-distributors during the Track Record Period:

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Number of sub-distributors at the beginning of the year	176	[294]	[333]
Addition of sub-distributors during the year	118	[39]	[—]
Reduction of sub-distributors during the year	—	[—]	[—]
Number of sub-distributors at the end of the year	<u>294</u>	<u>[333]</u>	<u>[333]</u>

There was no termination of either distributor or sub-distributor for the high precision industrial automation instrument and technology products during the Track Record Period.

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### ***Training***

In order to ensure the requisite level of skills and quality of service, the Group provides training to the sales team of its distributors. According to the distributorship agreements, the Group is obliged to provide training and services to distributors staff as needed.

### **Sales and Marketing**

Apart from monitoring the performance of the distributors, the directors believe the sales of the Group’s products rely significantly on its perceived quality and reputation of the Group in the market. In addition to upgrading and improving its products, the Group also publishes advertisements and columns in relevant industry publications and magazines to raise its profile. The Group has its own website which is regularly updated and contained the latest information about the Group, as well as being a platform for its end-users to enquire about its products and services. The Group also has an exhibition room at its manufacturing facilities in the Fujian province to display a complete range of its products.

The Group further promotes itself and its products directly to customers through domestic and international trade fairs and conferences, including MICONEX (an international trade fair for measurement, instrumentation, and automation technology) and the Hannover Messe (a leading international showplace for industrial technologies, materials and product ideas). Through its participation in these renowned exhibitions, the Group has managed to simultaneously showcase its products, strengthen its corporate image and boost its marketing and branding efforts.

### **After-sales Services**

Besides the after-sales services provided by the distributors to the end-users, the Group has established a toll-free hotline service within the PRC for its end-users to raise enquiries and lodge complaints. To assist sales by its distributors, the Group will provide explanation and training for its end-users in relation to skills required for, and special features of and the mode of operation for its products.

The Group typically offers warranty to the distributors on its pressure transmitter and indicator products for a period of 18 months effective from the date of delivery of the finished product during which faulty products will be repaired or replaced by the Group. The Group has established authorised distributors in major cities in the PRC who are stringently selected and trained to deal with customers’ complaints and faulty products. For any product enquiries, end-users can contact either the Group or its distributors and after-sales services would be provided by the Group or the distributors in accordance with the scope of the warranty granted. For any services outside the scope of the warranty, the Group or the distributors may charge a fee and if the distributors agree to provide such services, recourse is only to such distributors and not to the Group.

### **Pricing Policy**

The Group generally sells its products to distributors at prices that generally represent a discount to the Group’s guidance retail prices. The Group sets the guidance retail prices, after assessing competitive dynamics and market conditions affecting particular products, at levels the Group considers to be competitive relative to comparable products offered by foreign competitors. This enables the Group to avoid price competition between its distributors and its sub-distributors. If any of the distributors do not comply with the Group’s pricing policy, the Group retains its

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discretion to terminate the right for such distributor to distribute its products. Up to the [Latest Practicable Date], the Group is not aware of any material violations of its pricing policy by the distributors.

The Group determines the pricing of its products from time to time and is principally based on the following factors: (i) quantity and costs of raw materials; (ii) manufacturing costs; (iii) product quality; and (iv) price of equivalent products offered by its competitors. The prices of the products of the Group are adjusted to reflect the market environment of the particular locality in which the product is sold and the price of similar products sold by the Group’s competitors. For high precision industrial automation instrument and technology products, the price fluctuation is relatively stable since end-users are less concerned with costs of the product and pay more attention to the level of precision, stability, reliability of the product and the quality of sales services.

### **Credit Policy**

The usual credit period granted to its customers is [120] to 150 days from the date of billing but the credit period varies depending on the credibility of each individual customer. Debtors with balances that are more than three months overdue must settle all outstanding balances with the Group before the credit is granted. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors. Based on past experience, the Group has been able to recover almost all delinquent payments, usually within six months past due date, through active communications and collection negotiations with customers. The Group will write off receivables when such communications and collection negotiations fail to achieve receivables settlement, or when PRC accounting policies require the Group to write off the receivables (such as when debtor is bankrupt, etc). As at the end of the Track Record Period, the impairment loss on trade receivables amounted to RMB3.7 million, [nil] and RMB[nil], representing 0.76%, [nil]% and [nil]% of the total revenue of the Group, respectively. The credit policy and monitoring procedures of the Group are the same for both distributors and potential distributors.

### **[Competition**

According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, there are only 22 enterprises, out of 3,954 enterprises in total, in the PRC instruments industry with sales of over RMB300 million in 2007. Overall for the PRC instruments industry, domestic enterprises have generally only reached standards which are comparable to mid-1980s international levels.

In an industry with a small number of large enterprises and a large number of small enterprises, the higher and lower end market segments for the industrial automation instrument market in China have very different industry characteristics and competitive dynamics. With the exception of limited involvements by some domestic enterprises, the mid- to higher-end segment of the PRC market with high stability, reliability and precision requirements is oligopolistic in nature and almost exclusively reliant on imports or products manufactured by foreign invested enterprises (三資企業) such as the Group, with a relatively limited number of international brands commanding dominant market positions. On the contrary, the mid- to lower-end segment of the PRC market is highly fragmented and dominated mainly by domestic enterprises, characterized by intense competition amongst a large number of small and weak manufacturers with low R&D and product innovation capabilities and whose product standards are generally only comparable to mid-1980s international standard levels.

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The Directors believe that the key success factors in the industry are technology know-how, product quality, cost of manufacture, sales and distribution network and customer sales services. The Directors believe that it has competitive strengths as set forth in the section headed “Strengths of the Group” in this document that enables the Group to compete with other market players in the industry.

The Group’s products have acquired the European Union CE Mark, Russia GOST-R Mark and Kazakhstan GOST-K Mark, which allows the Group’s products to enter the respective markets of these countries. The Group was awarded the “Advanced Technology Enterprise with Foreign Investment (外商投資先進技術企業)” by Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省對外貿易經濟合作廳) and “High-Tech Enterprise (高新技術企業)” by Fujian Provincial Department of Science and Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial State Tax Bureau (福建省國家稅務局) and Fujian Provincial Local Tax Bureau (福建省地方稅務局) in recognition of its research, design and development achievements. The Directors believe that the Group’s technological and manufacturing strengths enable it to provide competitive pricing for its products.

The Directors believe that traditionally domestic companies in the same industry in the PRC have lagged behind the foreign competitors in terms of capital investment and research, design and development such that the market for middle to high-end industrial automation instrument has been dominated by foreign companies. Compared to other PRC industrial automation instrument manufacturers and new entrants, the Directors believe the Group has relatively stronger research, design and development capabilities as well as management and production teams.]

### HOROLOGICAL INSTRUMENT PRODUCTS

The Directors believe that the average selling prices of the Group’s plastic watch movements have fallen over the Track Record Period due to the decrease in the price of similar products, in general, internationally and in the PRC and that the Group’s reduction of selling prices to win market share in an intensely price competitive environment. If average selling prices of the Group’s plastic quartz watch movements continue to decline and if the Group cannot secure the favourable prices of the raw materials with its suppliers, the Group’s profitability may be harmed. Please refer to the section headed “Risk Factors” for details.

The Group has developed its horological instrument products for use in the manufacture of quartz watches. The Group currently produces three general types of horological instrument products, namely, (i) two-hand all plastic quartz watch movements, (ii) three-hand all plastic quartz watch movements, and (iii) calendar all plastic quartz watch movements.

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The following table shows the sales of each major type of horological instruments for the three financial years ended 30 June 2009.

	Year ended 30 June					
	2007		2008		2009	
	RMB'000	<i>% of the Group's total turnover</i>	RMB'000	<i>% of the Group's total turnover</i>	RMB'000	<i>% of the Group's total turnover</i>
<b>Horological instruments</b>						
Two hands	18,097	3.8%	[20,811]	[3.5%]	[10,910]	[1.8%]
Three hands	119,355	24.9%	[115,271]	[19.2%]	[126,410]	[20.4%]
Calendar	34,448	7.2%	[38,707]	[6.4%]	[20,258]	[3.2%]
<b>Total</b>	<b><u>171,900</u></b>	<b><u>35.9%</u></b>	<b><u>174,789</u></b>	<b><u>29.1%</u></b>	<b><u>157,578</u></b>	<b><u>25.4%</u></b>

### Product Design and Enhancement

The Group continues to explore new methods and technologies to increase the functionality of its horological instruments while reducing production costs. One of the Group's innovations is its capability in the moulding of plastic precision parts and components in the quartz watch movement. The moulding of plastic precision parts and components traditionally uses a single fixation point to position the parts and components being moulded. The Group has used a new method using multiple fixation point to position the parts and components being moulded. The Directors believe that the use of this new method of multiple fixation point has largely increased the accuracy and precision of the moulding process, allowing the parts and components being moulded to have the requisite miniscule dimensions.

[As at the Latest Practicable Date], the Group has obtained 23 patents for the technologies used in the making of its horological instrument products.

### Production

Analog quartz watch movement consists of a battery, a oscillator, a piece of quartz that vibrates in response to the electric current, the integrated circuit that divides the oscillations into seconds, the stepping motor that drives the gear train, and the gear train that makes the watch's hands move.

The production of horological instrument products starts from the production of moulds in the mechanical processing workshop. After the moulds are formed and completed, the following parts with different functions are manufactured in different workshops using the moulds produced: (i) plastic components; (ii) metal components; and (iii) circuit board components.

During the Track Record Period, the Group incurred direct material costs for horological instrument products of approximately RMB72.7 million, RMB[72.2] million and RMB[70.2] million, respectively, which represented approximately 71.7%, [68.0%] and [72.3]%, respectively, of the total cost of sales incurred for horological instrument products.

During the Track Record Period, the Group incurred direct labour costs for horological instrument products of approximately RMB11.1 million, RMB[10.5] million and RMB[8.6] million, respectively, which represented approximately 10.9%, [9.9%] and [8.9]%, respectively, of the total cost of sales incurred for horological instrument products of the Group. The Directors consider



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that the relatively low proportion of direct labour cost for horological instrument products incurred by the Group during the Track Record Period was attributable to the following reasons: (i) the Group utilises common workshop for high precision mechanical processing and associated adjustments and modifications to these processes which enables it to increase its efficiency, achieve economies of scale and therefore lowers the production costs for many products of the Group; and (ii) according to the China Statistical Yearbook 2008, which is the latest publicly available information published by the National Bureau of Statistics of China (中國國家統計局), the annual salary per head of staff and workers engaging in manufacturing industrial sector in Fujian Province was RMB[18,103] in 2007, which was lower than the national level of the same category of RMB[20,884] in 2007, therefore, it is not unusual that the proportion of direct labour cost was low compared to other categories of cost of sales of the Group.

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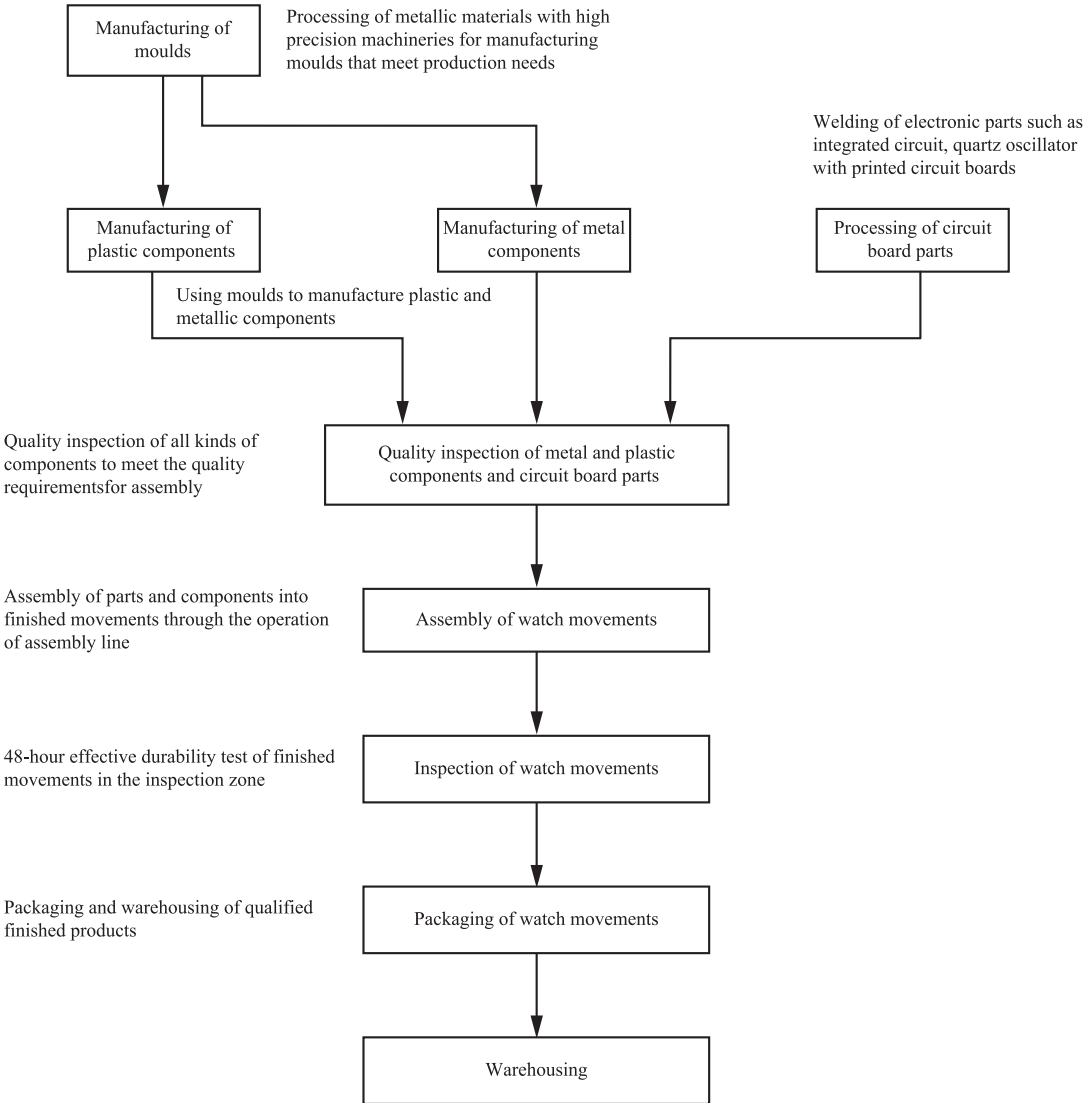
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The following chart shows the typical production process for the Group’s horological instruments:

**Production process for horological instruments**



**Customers**

The horological instrument products of the Group are sold mainly through [4] watch movements distributors that distribute the products to the watch manufacturers within the PRC and in Asia. To the best knowledge of the Directors, the Group’s horological instrument products are mainly used as parts of gift watches, not for brand name watches. To the best knowledge of the Directors, the watch movement distributors are Independent Third Parties. The Group recognises revenue upon delivery of its products to the distributors, at which time title passes to the distributors.

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The Group enters into distributorship agreements with each of the 5 distributors to distribute the Group’s horological instrument products for a term of one year which is renewable upon mutual agreement by the Group and its distributors. Renewals of such distributorship agreement are normally at the end of the preceding year and containing substantially the same terms, with the possible exceptions in changes in minimum sales quantity commitments and payment and credit terms.

These distributorship agreements generally include the following principal terms:

- *Geographic designation* — the distributors are authorized to sell the Group’s products within a defined geographical area.
- *Sales targets* — the distributors are required to meet the individual sales targets and the Group has the right to terminate the agreement should the distributor fail to meet the target.
- *Payment and credit terms* — the distributorship agreements include the payment and credit terms agreed with the distributor, determined on a case-by-case basis.
- *Undertakings* — the distributorship agreements contain undertakings by distributors to quote re-sale prices they charge their customers in accordance with the pricing guidelines set by the Group.

There is no sales return policy for the Group’s horological instrument products.

Set out below is the table showing the number of distributors of the Group’s horological instrument products:

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Number of distributors at the beginning of the year	4	[4]	[5]
Addition of distributors during the year	—	[1]	[—]
Reduction of distributors during the year	—	[—]	[1]
	<u>—</u>	<u>—</u>	<u>[1]</u>
Number of distributors at the end of the year	<u>4</u>	<u>[5]</u>	<u>[4]</u>

The Group has 2 to 5 years of business relationship with the distributors for horological instruments.

During the Track Record Period, the Group also sold its quartz watch movements to potential distributors with whom the Group has no formal distributorship agreements. The potential distributors are Independent Third Parties. The Group conducts its business with those potential distributors on a transaction-to-transaction basis and the Group has no formal distributorship agreements with such customers.

Despite the existing capacity constraints, and the need for the Group to honor supply volumes to existing distributors with distributorship agreements, the Group still sells some quartz watch movements to distributors without distributorship agreements, on similar terms and conditions as those distributors with whom had entered into distributorship agreements, so that at

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such time when the Group’s production capacity increases, the Group can make informed decisions on whether to formalize arrangements with such distributors by entering into distributorship agreements with them.

According to the best knowledge of the Directors, for the horological instrument products business of the Group, the distributors place orders with the Group once they have received orders from their customers. So far as the Directors aware that the distributors follow the normal commercial term and prevailing commercial practices that they maintain reasonable level of inventories of finished products so as to satisfy the market demand. Therefore, the distributors or sub-distributors place orders with the Group so as to maintain their inventories level for the purpose mentioned above.

To the best knowledge of the Directors, for the horological instruments, it is the fact that the Group sells the products to distributors of which they may sell the Group’s products to their customers directly. Given the nature of the business of distributors, the Directors are of the view that the in general the closest description of the business of the distributors is regarded them as traders.

During the Track Record Period, the five largest customers of horological instrument products of the Group (inclusive of one distributor without distributorship agreement for the two financial years ended 30 June 2007 and 30 June 2009) accounted for an aggregate of approximately 89.6%, [86.9%] and [96.3]% of total horological instrument product sales and the Group’s sales to distributors were approximately 85.9%, [85.9%] and [95.0]% of the total sales of the horological instrument products. Apart from distributors, during the Track Record Period, the Group’s sales to potential distributors were approximately 14.1%, [14.1%] and [5.0]% of the total sales of the horological instrument products.

During the Track Record Period, the largest customer of horological instrument products of the Group accounted for approximately 33.5%, [29.4%] and [32.7]%, respectively, of its total sales of horological instrument products. Revenue is recognised by the Group upon delivery of the products to the customers. The Directors believe that the Group enjoys stable relationships with its customers, some of whom are also its distributors.

During the Track Record Period, the Group has not experienced any significant disputes with its customers nor faced cancellation of any significant orders by its customers.

None of the Directors or their respective associates, or the Group’s existing Shareholders who, to the knowledge of the Directors, own more than 5% of its issued share capital, has any interest in any of the horological instruments customers of the Group.

### **Sales and Marketing**

As the perceived quality and reputation of the Group is important to the sales of its products, the Group publishes advertisements and columns in relevant industry publications and magazines to promote its brand and increase customers’ awareness. The Group’s website is another channel through which the Group’s customers can obtain latest information about the Group and its products. In addition, the Group exhibits a complete range of its horological instruments in an exhibition room at its existing manufacturing facilities in Fujian province. The Group utilises the sales and distribution networks of its distributors to assist the Group in the marketing and

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promotion of its products. The Directors believe that once the Group has increased its production capability, the Group can achieve higher sales volume of horological instrument products by actively seeking new customers and expanding its market share.

### **Pricing, Credit and Return Policy**

The Group determines the pricing of its products from time to time and is principally based on the following factors: (i) quantity and costs of raw materials; (ii) manufacturing costs; (iii) product quality; and (iv) price of equivalent products offered by competitors. The prices of the products of the Group are adjusted to reflect the market environment of the particular locality in which the product is sold and the price of similar products sold by competitors. Prices for horological instruments have been generally declining due to increase in competition.

The usual credit period granted to its distributors is [120] to 150 days from the date of billing and may vary depending on the credibility of each distributor. The credit policy and monitoring procedures of the Group are the same for both distributors and potential distributors. Distributors settle all payments in RMB or Hong Kong Dollars or U.S. Dollars. Unlike industrial automation and technology products, the price of each horological instrument product is relatively low and since horological instrument products are not finished products, the Group does not have a return policy and provide no after-sales services.

### **Competition**

The global quartz watch movements industry is an oligopoly market dominated by a relatively small number of market players. The Group focuses on the low-end quartz watch movements segment, which is characterized by fashion accessory watches, toy watches and gift watches. Seiko and Citizen produce about 440 million to 510 million quartz watch movements while eleven Chinese manufacturers collectively produce approximately 400 million quartz watch movements per year for this segment.

The Group therefore competes mainly against Seiko, Citizen and ten Chinese manufacturers. In recent years, large shifts have been seen in the strategies of Seiko and Citizen. Citizen has altered its strategy to de-emphasize its focus on low-end market segment to instead focus on the higher-end market segments while Seiko, the global industry leader, continues to defend against market share loss in the low-end segment to Chinese manufacturers and at the same time also increased its focus on higher-end segments.

According to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009, the Group is one of the three PRC quartz watch movements industry leaders in terms of production volume, and the only domestic enterprise which is leading industry innovations with products that are of international quality standards. Compare with Seiko and Citizen, the Directors believe Seiko and Citizen have stronger brand name, stronger access to financial resources, higher technical expertise and fully automated production expertise while the Group enjoys strong cost advantages. Compare with the nine Chinese quartz watch movement producers, the Directors believe the Group's high precision mechatronic technology expertise and the strong experience of its management and technicians collectively enable the Group to produce products of higher quality and to increase its market share steadily. The Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009 singled out the Group as the only domestic enterprise with products achieving Japanese technical standards and credited the Group with narrowing the technical gap with the Japanese manufacturers.

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### PRODUCTION FACILITIES AND PRODUCTION CAPACITY

[As at the Latest Practicable Date], the Group operated one production facility in No. 1, Cha Sha Road, Mawei Hi-Tech Development Zone, Fujian Province, the PRC. The property comprises a parcel of land with a site area of approximately 21,313 sq.m. with various buildings and structures. The buildings have a total gross floor area of approximately 30,000 sq.m. There are 20 production lines for manufacture of high precision industrial automation instrument and technology products and 24 production lines for manufacture of horological instruments. The designed maximum annual production capacity for high precision industrial automation instrument and technology products is approximately 600,000 units on annualised basis and the designed maximum annual production capacity for horological instruments is approximately 90,000,000 units on annualised basis. During the Track Record Period, the production utilisation rates of the Group’s high precision industrial automation instrument and technology products were approximately 94.2%, [92.2%] and [78.9]%, respectively and the production utilisation rates of the Group’s horological instrument products were approximately 88.6%, [95.0%] and [85.1]%, respectively.

The production utilization rate of the Group’s high precision industrial automation instrument and technology products decreased because, during the financial year ended 30 June 2009, the Group’s transmitter and flow meters production lines were expanded. The maximum annualized production capacity of transmitters increased from approximately [72,000] units during the year ended 30 June 2008 to approximately [100,000] units during the year ended 30 June 2009. The maximum annualized production capacity of flow meters increased from approximately [2,400] units during the year ended 30 June 2008 to approximately [20,000] units during the year ended 30 June 2009.

The production utilization rate of the Group’s horological instrument products decreased because, during the financial year ended 30 June 2009, the Group increased the production capacity of the horological instrument products by installation of computerized machineries. Consequently, the maximum annualized production capacity of watch movements increased from approximately [90] million units during the year ended 30 June 2008 to approximately [100] million units during the year ended 30 June 2009.

The manufacturing facilities of the Group are currently running at close to full capacity and will not be enough for the increasing market demand in a long run. Therefore, the Group applies its internal resources and the net proceeds of the convertible bonds issued on 8 July 2009 for expansion of production capacity of existing products. The net proceeds of the [●] will be used for construction of production facility of new products of the Group, such as, actuators, control valves and PLC products.

### HIGH PRECISION MECHANICAL PRODUCTION

The forms of high precision mechanical production utilised by the Group include high precision plastic or metal forming, high precision moulding and high precision mechanical processing technologies, of which the latter is regarded by the Group as the most important because it acts as the final step in ensuring the precision of parts and components after plastic or metal are formed and moulded.

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Apart from acquiring high precision mechanical processing equipments to assist with its high precision mechanical production, the Group’s high precision mechanical production capability is primarily a result of the skills and expertise of its technicians and production process design. For instance, in the manufacture of parts and components, the Group has established and devised its own technique in managing its precision mechanical production teams.

The Directors believe that its precision mechanical production capability, together with its high precision mechanical production team, enable the Group to produce its high precision industrial automation instrument and technology products and horological instrument products. The Group’s high precision mechanical production team has accumulated its expertise and experience by having each of its team members to specialise and concentrate on one of the eleven precision mechanical processing tasks in its precision mechanical production workshop, including rough processing, electric spark processing, wire-cutting processing, CNC processing centre, grinding processing, tooling, measuring, heat treatment processing, lathe, bench work, and mechanical and electronic tooling. Skills specialisation allows the Group’s technicians to accumulate relevant experience and expertise through repeated practice during production. By having skilled technicians and with the aid of precision equipments and machinery, the Group ensures the requisite level of precision and quality of its products during the manufacturing processes, which include cutting, moulding, thermal treatment and inspection. The Group upgrades its machinery and equipments (some of which are not commercially available as they require customisations involving proprietary process know-how) from time to time for its new products to ensure the development of its new products utilise leading technologies and equipments.

## RESEARCH AND DEVELOPMENT

### Overview

The Group places great emphasis on its research, design and development capabilities, as it is only through the innovation of technologically advance products that the Group will be able to maintain its market position amongst the leading manufacturers of high precision industrial automation instruments and horological instruments.

[As at the Latest Practicable Date], the research and development department of the Group employed [33] personnel, most of whom are equipped with undergraduate or higher education degrees in relevant fields ranging from mechanical engineering, instrument manufacturing, automatic controlling, microelectronic and information engineering, computer technology, radio equipment, materials and technique, machines, electric and machinery.

The research and development cost for the Group amounted to approximately RMB1.7 million, RMB3.3 million and RMB[7.2] million, respectively, during the Track Record Period, which represented approximately 0.35%, 0.55% and [1.17]% of total turnover of the Group. The cost mainly represented the salaries of 26, [33] and [33] experts working full time in the Group’s research and development department during the Track Record Period, respectively. The attributable salaries for the experts amounted to RMB0.5 million, [RMB0.9 million] and RMB[0.8] million during the Track Record Period, the remaining research and development cost for the Group mainly represented materials cost.

According to the information disclosed in the section headed “Directors, Senior Management and Staff” in this document, the Group’s R&D team is composed of [95] staff and key management personnel as at 30 June 2009. The team includes [33] experts in R&D department, [59]

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technicians and other staff in the operational department led by [3] executive Directors namely, Mr. Wong Fun Chung, Mr. Zou Chong and Mr. Su Fang Zhong, who possess over 10 years experience in the industry (as disclosed in the section headed “Directors, Senior Management and Staff” in this document) and actively involve in research and development activities of the Group. They are involved in the operation management, sales and marketing, R&D, purchasing and financial control activities of the Group. Their remuneration in respect of R&D activities cannot be reasonably apportioned and, thus, the R&D cost did not include the remuneration of 3 executive Directors during the Track Record Period.

The R&D department together with 3 executive Directors contribute ideas and theoretical aspects on new production processes, modifications to existing products and new products, they would communicate with some operational staff in the R&D team by allowing the operational staff to spend some of their working hours in testing and applying the ideas and theories to determine whether the new production processes, modification and/or manufacturing of new products are feasible.

Due to the fact that such communication and implementation of the ideas and theories by the operational staff are on an ad-hoc basis and the Group had not yet implemented a timesheet system for the operational staff to record their time spent on R&D activities during the Track Record Period, the salaries for operational staff attributable to the provision of assistance to R&D activities cannot be reasonably assessed.

Given the above facts, the Group determined that its R&D costs represented the whole spending in R&D department. No allocation is made in respect of the operational staff salaries and directors’ remuneration.

The Directors consider that the low level of research and development cost as compared with the sales revenue of the Group was mainly attributable to the fact that, during the Track Record Period, as disclosed in the sub-section headed “Collaboration with educational institutes” below, the Group has established research and development assistance and support with various colleges and universities in the form of cooperative projects. By such establishment, the Group can achieve cost saving in research and development, as compared with, in the event that, such activities are conducted entirely by the Group.

Please refer to the section headed “Statutory and General Information — Intellectual property rights” in Appendix VI to this document for more details.

### **Use of Mathematical Modelling**

The Directors regard mathematical modelling as an important area for research, design and development of the Group as mathematical modelling greatly assists in the mechanical design of hardware and the design and programming of software. The Group develops mathematical models by conducting experiments using different hardware or software, collating data generated by these experiments, perform analysis on these data and build up mathematical models to explain certain phenomenon such as mechanical distortions as a result of pressure, temperature or liquid flow changes to which such hardware or software is subject to. Mathematical models can be used to determine the optimal results from these experiments and enable the Group to identify the hardware and software that can produce instruments with the requisite precision, stability and sensitivity. By leveraging on the Group’s strength in mathematical modelling, the Group has developed new products, registered patent and software copyright and received various awards and prizes.



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### Collaboration with Educational Institutes

With the research and development assistance and support from various colleges and universities, four cooperative projects are in place, including cooperations with Fuzhou University (福州大學), Tianjin University (天津大學), South China University of Technology (華南理工大學) and Institute of Chief Manufacturing Engineering and Design of the Chinese People’s Liberation Army (中國人民解放軍總裝備工程設計研究學院).

The Group is collaborating with Fuzhou University (福州大學) and Fujian Integrated Micro-electronic Key Laboratories (福建省微電子集成電路重點試驗室) (collectively “Fuzhou University”) to develop Specialised Integrated Circuit (儀錶專用集成芯片) for use in its high precision industrial automation instrument and technology products. Under the collaboration, which is effective from 18 July 2006 to 31 December 2009, the Group is responsible for the earlier stage research and development of the products and the related expenses incurred while Fuzhou University is responsible for the later stage design and testing of the products and the related expenses incurred. The intellectual property rights will be owned by the Group and the Group will pay a total of RMB5 million to Fuzhou University within 60 days upon successful completion of the project.

The Group has on 8 May 2007 entered into a long term strategic collaboration agreement with Precision Instrument and Optical and Electrical Engineering School of Tianjin University (天津大學精密儀器及光電子工程學院) (collectively “Tianjin University”) to develop oil and gas pipeline testing and safety prevention related projects targeting northwest Xinjiang and central Asian markets. As it pertains to oil and gas leakage detection related projects, Tianjin University is mainly responsible for (i) systems development, installation, customisation and testing, (ii) training of and technical exchanges with the Group’s staff, and (iii) all technical issues, while the Group shall be responsible for all post-sales maintenance and related services. The Group shall be mainly responsible for providing R&D related funding while Tianjin University will undertake the related R&D work. Tianjin University agrees that the Group will be the primary production and R&D base and will provide the Group with requisite resources such as production know-how, equipments and technical expertise. There is no specific project or salient term of collaboration in the aforesaid agreement.

The Group and Tianjin University on 16 January 2008 entered into a supplementary agreement to collaborate specifically on the Xinjiang Oil Pipeline Leakage Detection Project (新疆原油管道泄漏檢測項目), which involves detection and examination technology in relation to leakages in oil pipelines (原油管道泄漏檢測技術). Under the supplementary agreement, which is effective until December 2008, Tianjin University is responsible for research and development phase of the project and the related expenses incurred while the Group is responsible for the commercialisation (including marketing, production and implementation) of the project and all other expenses incurred. The intellectual property rights will be jointly owned by the Group and Tianjin University with Tianjin University entitling to 5% of the total contract value derived from the project by the Group. The aforesaid project was under the testing stage when the Group and Tianjin University on 12 January 2009 entered into a supplementary agreement to collaborate in the development of oil pipelines safety precaution technology (油氣管道安全預警技術) on the bases of detection and examination technology in relation to leakages in oil pipelines (原油管道泄漏檢測技術). Under the supplementary agreement, Tianjin University is responsible for research and development phase of the project and the related expenses incurred while the Group is responsible for the commercialisation (including marketing, production and implementation) of the project and all other expenses incurred. The intellectual property rights will be jointly owned by the Group and Tianjin University with Tianjin University entitling to 5% of the total contract value derived from the project by the Group.

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The Group collaborated with the Technology Development Company of South China University (華南理工大學科技開發公司) (collectively “South China University”) to develop a part of the automated production line for horological instruments (全自動鐘錶分輪自動化裝配線). Under the collaboration, which started on 3 April 2007 with an effective period of six months, the Group was responsible for RMB200,000 in research and development expenses while South China University was responsible for undertaking the actual R&D work. The intellectual property rights are jointly owned by the Group and South China University. The collaboration on the aforesaid project had completed.

The Group has collaborated for over ten years with the Institute of Chief Manufacturing Engineering and Design of the Chinese People’s Liberation Army (中國人民解放軍總裝備工程設計研究總院) (collectively “Institute of Engineering & Design”) in respect of various projects in national defense and aerospace fields. The Group has entered into a long term strategic Technical Cooperation Agreement with the Institute of Engineering & Design on 15 September 2006 to cooperate on an ongoing basis of various automation related projects in the national defense, aerospace and energy sectors.

[As at the Latest Practicable Date], with the exception of the project with South China University, all projects are active and in progress.

The Group will continue to cooperate with universities and educational institutes for future research, design and development of new products and technologies. Further, highly regarded state-level experts in the industry are appointed as members of the Group’s technical advisory committee to provide comprehensive guidance over its R&D activities.

### Products Development

The Group made major breakthroughs in the development of its products. One of these breakthroughs is the self-adjusting quartz watch movement (自適應石英錶芯), which has load compensation technology (負荷補償技術) that is comparable to that of the Japanese products. This had effectively reduced the gap in technical expertise between the PRC and Japan.

[As at the Latest Practicable Date], the Group has registered 31 patents (including 10 design patents and 21 utility model patents. As confirmed by the PRC legal advisers of the Group, according to relevant laws and regulations in the PRC, design patents refer to the design of the shape and colour applied to an industrial product. Utility model patents refer to the manufacturing method and structure and usage of the products concerned. All the design patents and utility model patents registered by the Group were internally developed by the Group.

### Certifications and Awards

Some of the Group’s products are affixed with the European Union CE Mark, Russia GOST-R Mark and Kazakhstan GOST-K Mark, which certifies that the Group’s products are in conformity with certain mandatory health and safety, technical and quality requirements of these respective markets, such as the EMC Directive, RoHS Directive, ATEX Directive and the Russian and Kazakhstan equivalent of these directives where applicable. The EMC Directive is directed at ensuring electronic products are constructed so that they do not cause excessive electromagnetic interference and are not duly affected by such. The RoHS Directive aims to ensure electronic products contain less than set levels of harmful substances such as lead, mercury etc. In particular, the Group has in 2007 obtained ATEX product certification for its products that are intended for use in potentially explosive atmospheres.

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In addition, the Group was awarded the “Foreign Invested Advanced Technology Enterprise (外商投資先進技術企業)” by Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省對外貿易經濟合作廳) and “High-Tech Enterprise (高新技術企業)” by Fujian Provincial Department of Science and Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial State Tax Bureau (福建省國家稅務局) and Fujian Provincial Local Tax Bureau (福建省地方稅務局) in recognition of its research, design and development achievements.

### PROPERTIES

The Group leases its headquarters in Hong Kong and its sole manufacturing facilities in Fuzhou, Fujian Province of the PRC from Independent Third Parties. The Group’s manufacturing facilities occupy an aggregate gross floor area of approximately 30,000 sq.m. Please refer to Appendix IV to this document for further details of the property interests of the Group.

In anticipation of the Group’s future development, the Group is constructing a new manufacturing facility at Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC covering a total site area of approximately 47,665 sq.m. for the production of high-end high precision industrial automation instrument and technology products. The construction of the new facilities was authorized to commence in October 2007 and is expected to commence trial production in the [first] half of 2010. The Group has obtained the State-owned Land Use Rights Certificate for a portion of that land parcel with a site area of approximately 39,649.5 sq.m. while the remaining portion of land with a site area of approximately 8,015.5 sq.m. title certificate. [As at the Latest Practicable Date], the Group has yet to obtained the land use right certificate for the site because the Mawei State Land and Resources Bureau (馬尾區國土資源局) has yet to hand over the site to the Group. The removal of production facilities in the site, which are still occupied by Independent Third Parties, is in progress and is expected to be completed by the end of 2009 resulting in the Group not taking possession of the above site as at the [Latest Practicable Date]. It is expected that the Group will obtain the valid land use right certificate of the site after the removal. Despite the aforesaid fact, the removal will not affect the Group’s plan to construct a new factory.

### RAW MATERIALS

The Group purchases over 4,000 different types of raw materials and components for manufacturing processes. The five largest types of raw materials and components consumed by the Group in its manufacture of automation technology products and watch movements include LCD screens, sensor components, wire, discs and quartz. During the Track Record Period, the costs of the five largest types of raw materials and components accounted for 32.7%, [30.7%] and [30.7%] of its cost of raw material, and the Group’s cost of raw material accounted for 85.1%, [85.5%] and [87.6%] of its total cost of sales.

### SUPPLIERS

The Group sources its raw materials and components from more than 20 suppliers who are Independent Third Parties.

During the Track Record Period, the Group’s purchases from its top five suppliers amounted to approximately RMB170.8 million, RMB[216.3 million] and RMB[205.3] million, respectively, representing approximately 80.6%, [76.8%] and [72.8%] of its total purchase, respectively. During

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the Track Record Period, the Group’s purchases from its largest supplier amounted to approximately RMB47.3 million, RMB[68.3 million] and RMB[72.5] million, respectively, representing approximately 22.3%, [24.2%] and [25.7]% of its total purchase, respectively.

The Directors consider the Group’s relationships with its suppliers stable since the Group did not experienced any major difficulty in obtaining adequate supplies of raw materials and components to meet its production requirements during the Track Record Period. Since the raw materials and components sourced are common and can be easily purchased from the market, the Directors believe that even if any of its top five suppliers fail to meet the Group’s demand, there are sufficient alternative suppliers to supply the principal raw materials and components to allow the Group to find suitable substitutes if necessary. The Group does not rely on any particular suppliers for its supply of raw material and components as it is able to purchase these materials and components from many other suppliers.

The Group has not entered into any contract exceeding one year with any of its suppliers, and negotiates orders with suppliers on an ad hoc basis.

During the Track Record Period, materials sourced from suppliers were denominated in Renminbi. The Group normally conducts its purchases on a credit basis and payment is settled after delivery by the relevant supplier. Depending on the arrangement between each individual supplier and the Group but generally the number of days for the Group’s account payable ranges from 90 to 120 days.

None of the Directors, their respective associates, or so far as the Directors are aware, Shareholders who will own more than 5% of the Group’s issued share capital immediately following the completion of the [●] had any interests in any of the five largest suppliers during the Track Record Period.

## QUALITY ASSURANCE

The Directors believe that high quality and standards are crucial to the Group’s success. The Directors also believe that reliability and quality of its products is crucial to the Group’s success, maintaining consistency in quality and precision of its products are the Group’s main priorities.

The Group’s products have undergone internal production control and quality assurance examination and rigorous testing, some of which have been affixed with the European Union CE Mark, Russia GOST-R Mark, Kazakhstan GOST-K Mark, and have met the necessary requirements for entering the respective markets of these countries. Such qualifications enhance customer confidence in the quality of the Group’s products. The Group does not have any plans for entering into these countries.

The Group was also awarded ISO 9001:2000 in relation to the design, exploitation and production of digital controllers, pressure transmitters and multi-channel flow controllers, sensor both locally by the Quality Assurance Centre of China Association for Quality (“QAC”) and internationally by National Quality Assurance Limited (“NQA”) of the United Kingdom. The Directors believe the Group strictly complies with the international ISO9001 quality system standard by stringently supervising and monitoring various aspects of its business ranging from product development, raw material supply and system integration and by implementing entire-process quality control.

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The Group has also obtained the “Electromagnetic Compatibility” certificate from the Lloyd’s Register. Many of the Group’s electrical products that are exposed to explosion risks have obtained Certificate of Conformity from the China National Quality Supervision and Test Centre for Explosion Protected Electrical Products. All of the above institutions are Independent Third Parties and not connected with the Directors or the Substantial Shareholders of the Group or any of its subsidiaries or any of their respective associates.

Please refer to the section headed “Business — Awards, Recognition and Accreditation” in this document for further details of the Group’s awards.

In order to maintain high quality standards, it is not sufficient to purely rely on inspections of final products to detect defects. Instead, quality control must be assured starting at the pre-production stage and throughout the production process. The Group has adopted a stringent quality and management control system which oversees the entire manufacturing process to address production errors at the points of occurrences to ensure continuous quality maintenance and production efficiency.

The Group has established the following stringent and closely connected quality control system that allows it to achieve the goal of having “defect-free product, fault-free system and complaint-free service”:

- Suppliers — Suppliers are chosen based on the supplier’s continuous ability to guarantee good product quantity and quality, reasonable price, timely delivery and good services. When selecting suppliers, the Group requires potential suppliers to provide relevant quality certifications, arrange for site visits, request for samples of the materials to be supplied to ensure that the materials meet the required specifications and interview supplier’s customers to evaluate potential supplier’s ability to give quality assurance and its reputation.
- Purchase of raw materials — When raw materials, parts and components are delivered to the Group by its suppliers, they are examined by performing sample tests on the chemical composition, inspecting the physical parameters and checking packaging and storage conditions to ensure they meet the prescribed specifications and quality prior to confirmation of orders. All substandard raw materials or semi-finished goods will be returned to the supplier.
- Machinery and production line management — The quality control department regularly evaluates the suitability of the production lines and facilities for conducting the manufacturing process and appraise the prevailing hygiene and temperature conditions, technical parameters and amount and/or composition of ancillary materials used in the manufacturing process. Regular inspections and maintenance are carried out by the Group’s equipment administrators to ensure optimal performance of equipments.
- Production — During each stage of the manufacturing process, the quality control team conducts visual inspection and performance testing (such as ageing and temperature tests) to ensure that the semi-finished and finished products comply with the requisite standards in terms of physical parameters and quality.

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- Inventory storage — Products are packed using specialised foam packaging and proper procedures are laid down to ensure no degradation of product quality during storage and transportation.
- Sales — All finished products are subject to a final sample check before delivery to customers. Products which do not meet the relevant quality standards will be re-worked and are subject again to the same inspection and performance testing.
- Staff quality awareness system — Regular training and continuous assessments of the performance of the Group’s workforce are conducted.

The Group has a team of quality control personnel as well as product quality inspectors at the production lines responsible for testing of semi-finished products.

Newly hired quality control personnel are required to attend introductory training held by the Group, which include training relating to the relevant ISO standards. The Group also conducts internal review annually or when the management of the Group considers necessary on its operations against the prescribed quality control policy formulated on, among other things, the ISO standards to ensure the ongoing compliance with the requirements of ISO certifications.

During the Track Record Period, no products of the Group had been returned by its customers as a result of product quality issues. The Directors believe that the Group is able to maintain this result through the continuous improvement of the Group’s quality control system.

### **INVENTORY CONTROL**

The Group regularly monitors its inventory levels to minimise obsolete inventory. The Group’s inventory balance includes raw materials, work-in-progress and finished goods. The Group has instituted the following principal inventory management procedures to ensure efficient management of its inventory:

- All purchases of raw materials and components must be authorised and approved by the relevant staff and recorded in the inventory management system;
- All incoming raw materials and components must be examined and verified against the Group’s purchase orders before acceptance;
- All raw materials and components are tagged with references after acknowledgement of receipt;
- All outgoing raw materials and components for production use must be authorised by production manager and recorded in the inventory management system;
- All finished goods are acknowledged by customers upon delivery and recorded in the inventory management system; and
- Monthly stock counts and annual stock takes are carried out to ensure the number of stored items correspond with all record entries recorded during the Track Record Period.

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Raw materials, parts and components sourced from third party suppliers that play a small role in the manufacturing process of the Group purchases from time to time based on its production plan and its anticipated needs for meeting customer requirements. As for raw materials, parts and components that are crucial to the Group’s manufacturing process, inventory of such materials is kept depending on the supply frequency of such materials.

During the Track Record Period, the Group’s raw materials turnover was approximately 23.9 days, 23.3 days and [25.9] days, respectively.

The Group currently performs stock take on an annual basis, at which time the Group also identifies obsolete goods. The Group plans to increase the frequency to semi-annually commencing the financial year ending 30 June 2010. The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analyses, projections of expected future sales and management experience and judgements. Based on this review, write-down of inventories will be made when carrying amounts of inventories decline below their estimated net realisable value. The Group has consistently applied the inventory provisioning policy during the Track Record Period.



The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

All inventories as at 30 June 2007, 2008 and 2009 were carried at cost.

During the Track Record Period, there was no provision made against the inventories in the financial statements of the Group.

According to the ageing analyses of the Group’s inventories position as at each of the financial year end during the Track Record Period, the inventories held by the Group during the relevant years were not more than 6 months, which represented approximately 100%, [89.0]% and [100]% of the respective outstanding balances of the inventories of the Group during the Track Record Period. Furthermore, all the inventories were subsequently used for the production and sold by the Group above cost. Hence, there is no provision for the inventories held by the Group made during the Track Record Period.

## INTELLECTUAL PROPERTY RIGHTS

The Group’s intellectual property rights are important to its business as all of its products are manufactured using advanced technologies, experience, expertise and processes designed for professional industrial uses accumulated over 10 years. Currently, the Group has 11 trademarks, 31 patents (including 10 design patents and 21 utility model patents) and 4 software copyright registered in the PRC. The Directors believe “” has now become a well-known brand name and is fully recognized by the market and its users. Our corporate logo “” is awarded the famous trade mark in Fujian province. The aforesaid intellectual properties rights are registered in the name of Fujian Wide Plus. Details of the intellectual properties rights of the Group are set out in the section headed “Intellectual property rights” in Appendix VI “Statutory and General Information” to this document.

Due to the increasing recognition of intellectual property rights in the PRC, the Group has actively protected its intellectual property rights by progressively applying for patent registration of all or its existing registrable product technology, which relates to the product design, production processes and techniques. The Group also continuously seeks new patents for products and technologies developed through its research, design and development activities.

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Since the Group’s intellectual property rights consist mainly of trade secrets, to guard its interests, the Group requires all of its employees, including management personnel, research, design and development personnel, technical personnel, sales personnel and production workers to execute a confidentiality agreement which covers a wide range of confidential information including technical plans and reports, project design, circuit design, manufacturing methods, commercial secrets, industrial processes, technical standards, measurement software, database, product designs, and records of research, design and development.

### AWARDS, RECOGNITION AND ACCREDITATION

#### Awards and Recognition

The Group has obtained various awards for its research and development capabilities, production techniques and operational performance including:

<b>Description</b>	<b>Awarding organisation and authority</b>
Advanced Technology Enterprise with Foreign Investment (外商投資先進技術企業) obtained in 2004	Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省對外貿易經濟合作廳)
Executive Directorship of China Horologe Association (中國鐘錶協會常務理事單位)	China Horologe Association (中國鐘錶協會)
Directorship of China Instrument Manufacturers Association (中國儀器儀錶行業協會理事單位) between 2007–2010	China Instrument Manufacturers Association (中國儀器儀錶行業協會)
Chairmanship of Directors, Expert Committee of Indicating & Control instruments (顯示控制儀錶專業委員會理事長單位) from 2006 to 2010	Process Automation Instrumentation Sub-Association of China Instruments Manufacturers Association (中國儀器儀錶行業協會自動化儀錶分會)
“Wide Plus” being recognised as the Famous Trademark of Fujian Province in 2006	Fujian Provincial Committee of Famous Trademark Recognition (福建省著名商標認定委員會)
Winner of “An’kang” Prize for production Safety for year 2006 (2006年度福州市“安康杯”)	Fuzhou Municipal Labour Union (福州市總工會)
Worker Innovation Model Awards (福州市職工創新示範崗) for Electric Research & Development Group of Fujian Shangrun obtained in 2006	Fuzhou Municipal Safety Production Supervision Bureau (福州市安全生產監督管理局)
	Fuzhou Municipal Labour Union (福州市總工會)



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<b>Description</b>	<b>Awarding organisation and authority</b>
Employee Living Environment Standard Reaching Company (企業職工生活環境達標單位) in 2006	Fuzhou Economic and Technological Development Zone Labour Union (福州經濟技術開發區總工會)
Winner of Fuzhou Development Zone Female Employee Work Performance (福州開發區女職工工作先進集體) for year 2005 and 2006	Fuzhou Economic and Technological Development Zone Labour Union (福州經濟技術開發區總工會) Fuzhou Mawei District Labour Union (福州市馬尾區總工會)
Winner of Fuzhou Development Zone Labour Union Work Performance (福州開發區工會工作先進單位) in 2006	Fuzhou Economic and Technological Development Zone Labour Union (福州經濟技術開發區總工會) Fuzhou Mawei District Labour Union (福州市馬尾區總工會)
Winner of Employee Economic and Technology Innovation Award (職工經濟技術創新先進單位) in 2006	Fuzhou Economic and Technological Development Zone Labour Union (福州經濟技術開發區總工會)
Labour Relation harmonious Enterprise (勞動關係和諧企業) for the year 2006	Fuzhou Municipal Labour Union (福州市總工會) Fuzhou Labour and Social Security Bureau (福州市勞動和社會保障局) China Communist Party Fuzhou Municipal Commission Culture Office (中共福州市委文明辦) Fuzhou Municipal Commission of China Communist Youth League (共青團福州市委員會)
State Key Product Certificate (國家重點新產品證書) for WP-L Intelligent Flow Controller for Natural Gas in 2002 and valid for three years	Ministry of Science and Technology (科學技術部) State Tax Bureau (國家稅務總局) Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部) State Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) State Environmental Protection Bureau (國家環境保護總局)

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<b>Description</b>	<b>Awarding organisation and authority</b>
Fujian Provincial Key Product Certificate (福建省重點新產品證書) for WP-L Intelligent Flow Controller for Natural Gas in 2003 and valid for three years	<p>Fujian Provincial Department of Science and Technology (福建省科學技術廳)</p> <p>Fujian Provincial State Tax Bureau (福建省國家稅務局)</p> <p>Fujian Provincial Local Tax Bureau (福建省地方稅務局)</p> <p>Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省對外貿易經濟合作廳)</p> <p>Fujian Provincial Quality and Technology Supervision Bureau (福建省質量技術監督局)</p> <p>Fujian Provincial Environmental Protection Bureau (福建省環境保護局)</p>
Grade Three of Fujian Science and Technology Advancement Award (福建省科學技術獎三等獎) for WP Series Intelligent Flow Controller for Natural Gas obtained in 2002	Fujian Provincial Government (福建省人民政府)
Grade Two of Fuzhou Technology advancement Award (福州市科技進步二等獎) for WP-L Intelligent Flow Controller for Natural Gas obtained in 2002	Fuzhou Municipal Government (福州市人民政府)
Civilisation Enterprise Awards (文明單位) between 2000–2001	<p>Fuzhou Gulou District Government (福州市鼓樓區人民政府)</p> <p>China Communist Party Fuzhou Gulou District Commission (中共福州市鼓樓區委)</p>
“High Standard, High Quality” (“高標準、高質量”) Award	Fujian Provincial Standardisation Association (福建省標準化協會)

### **Accreditation**

The Group has obtained following accreditation:

<b>Description</b>	<b>Accreditation authority</b>
High-Tech Enterprise (高新技術企業) between July 2005–July 2007	Fujian Provincial Department of Science and Technology (福建省科學技術廳)

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Description	Accreditation authority
High-Tech Enterprise (高新技術企業) between September 2007–September 2009 <sup>(1)</sup>	Fujian Provincial Department of Science and Technology (福建省科學技術廳)
High-Tech Enterprise (高新技術企業) between December 2008–December 2011 <sup>(2)</sup>	Fujian Provincial Department of Science and Technology (福建省科學技術廳) Fujian Provincial Department of Finance (福建省財政廳) Fujian Provincial State Tax Bureau (福建省國家稅務局) Fujian Provincial Local Tax Bureau (福建省地方稅務局)

*Note (1):* Fujian Wide Plus was accredited as High-Tech Enterprise (the “Certificate”) in July 2005 by Fujian Provincial Department of Science and Technology (福建省科學技術廳). According to the Certificate, it was valid for 2 years to July 2007. In September 2007, Fujian Provincial Department of Science and Technology (福建省科學技術廳) renewed the Certificate for another two years to September 2009.

*Note (2):* Fujian Wide Plus was accredited as High-Tech Enterprise in December 2008.

## WELFARE CONTRIBUTION

The Group’s PRC subsidiary participates in the social insurance schemes which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance in accordance with the applicable PRC laws and regulations save as disclosed in the sub-section headed “Business — Regulatory Matters” in this document. During the Track Record Period, the contributions and provision for such contributions of the Group in relation to such welfare schemes amounted approximately to RMB2.3 million, [RMB2.9 million] and RMB[1.2] million, respectively. However, until the May and June 2008, the Group used not to obtain medical insurance coverage for its employees as required under the relevant PRC laws and regulations.

According to the laws and regulations of the PRC, as part of employees welfare and benefits, companies are required to make contributions to a government administered housing fund at a rate of no less than 5% of salaries paid to employees. However, Fujian Wide Plus used not to make contributions to the housing fund since its incorporation. For details, please refer to the section headed “Business — Regulatory Matters” in this document.

The Group provides its staff in Hong Kong with a provident fund scheme in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). The Group is responsible for contributing 5% of the salary of the employees (up to a maximum of HK\$1,000 in respect of each employee) on a monthly basis to the fund.

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### INSURANCE AND PRODUCTS LIABILITY

The Group has maintained an all-risk property insurance policy for its inventories and fix assets, and has had product liability insurance for its high precision industrial automation instrument and technology products since 5 April 2009. The Group did not have product liability insurance for its high precision industrial automation instrument and technology products before 5 April 2009. Any malfunction in, or inadequate design of, the high precision industrial automation instrument and technology products that the Group manufactured and sold before 5 April 2009 may result in product liability claims being brought against the Group.

Any product liability claims made against the Group may involve allegations of personal injury or property damage, or claims for any financial losses arising from interruption of operations as a result of any consequent property damage. As the Group supplies its high precision industrial automation instrument and technology products to customers in a wide range of industries, large product liability judgements against the Group may be ordered. Generally, if the Group’s high precision industrial automation instrument and technology products are defective, the risk is that the end-users may significantly damage to their facilities into which these products were incorporated. Apart from the significant adverse impact product liability claim may have on the operating results and financial condition of the Group, such liability claim may also adversely affect the market reputation of the Group and its “Wide Plus” brand, which may result in a decline in demand for its products.

### ENVIRONMENTAL COMPLIANCE AND SAFETY

Laws and regulations in the PRC on environmental protection that are applicable to the Group are mainly general PRC laws and regulations on environmental protection, such as the “Environmental Protection Law of the PRC” (中華人民共和國環境保護法), the “Water Pollution Prevention Law of the PRC” (中華人民共和國水污染防治法), the “Atmospheric Pollution Prevention Law of the PRC” (中華人民共和國大氣污染防治法), the “Environmental Noise Pollution Prevention Regulations of the PRC” (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law of the PRC” (中華人民共和國環境影響評價法) and the “Regulations Governing Environmental Protection in Construction Projects” (建設項目環境保護管理條例).

As most of the machinery and equipment used by the Group are computerised, and the processing of such machinery and equipment are usually carried out in an enclosed manner, no heavy pollution is involved in its production process.

During the Track Record Period, the Group has implemented measures to comply with the applicable laws and regulations relevant to the issue of social responsibility, in particular, health, safety, insurance and accidents. These measures include, among others, (i) provision of insurance for properties and assets; (ii) provision of insurance for employees’ compensation for injuries incidental to the business operations of the Group; and (iii) provision of maternity insurance for female employees of the Group in the PRC. Furthermore, the Group has a set of internal safety guidelines in place so as, among others, (i) to govern the safety measures taken in the course of production, (ii) to provide adequate training to workers and supervisory staff on safety issues; and (iii) to outline reporting and handling procedures in case of an accident occurs.

The Group has environmental measures to ensure the Group’s compliance with all applicable environmental protection laws and regulations, such as, (i) cooling water used for the production is collected and recycled; (ii) the waste water produced is collected and reprocessed through the

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sewage treatment facility before it is disposed to the public sewage system; (iii) all plastic waste materials are recycled for further production process; and (iv) anti-shocking and anti-noise pollution facilities are used by the machinery production process of the Group.

Currently, the Group believes it has sufficient measures to address the environmental protection and safety issues of the Group’s production process and the Group continues to monitor and ensure the compliance of above areas.

During the Track Record Period, the Group has incurred the total cost of compliance with applicable laws and regulations of approximately RMB29,000, [RMB110,000] and RMB[53,000], respectively. The Directors consider that the expected cost going forward to be incurred will be in line with sales volume of the Group.

[As at the Latest Practicable Date], according to the PRC legal adviser to the Group, the Group has complied with the PRC laws and regulations on environment protection and workplace safety that are applicable to its operations. The Group has not been subject to any fines or administrative action involving non-compliance with any relevant environmental regulations, nor are the Directors aware of any threatened or pending action by any environmental regulatory authority in any place where the Group operates its business.

## LEGAL PROCEEDINGS

[As at the Latest Practicable Date], no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

## TAXATION

### Income Tax

Income tax payable by foreign-invested enterprises established in the PRC was governed by the “Income Tax Law of The People’s Republic of China on Enterprises with Foreign Investment and Foreign Enterprises” (《中華人民共和國外商投資企業和外國企業所得稅法》), which took effect from 1 July 1991 and provided for a national income tax rate of 30% (plus a 3% local tax) unless a lower rate was provided by law or administrative regulations. However, as Fujian Wide Plus is situated in the Mawei District of Fuzhou, which is an economic and technological development zone, it enjoyed a preferential PRC Enterprise Income Tax rate of 15%. Since it is a manufacturing and foreign investment enterprise and is accredited as a new and high technology enterprise, it was granted certain tax relief whereby the profit for the two years starting from 1 January 2004 to 31 December 2005 was exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate in accordance with “Detailed Rules for the Implementation of the Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》). “Approval for recognition of the application of Fujian Wide Plus for being qualified as a Foreign Investment Enterprise to be granted the “two plus three” tax preferences” (Rong Kai Guo Shui Han (2004) No.74) (《關於對福建上潤精密儀器有限公司申請享受外商投資企業所得稅“免二減三”優惠政策資格確認的批覆》(榕開國稅函 (2004)74號)) and “Approval for application for recognizing the profit-making year of Fujian Wide Plus for Foreign Investment Enterprise Income Tax” (Rong Kai Guo Shui Han (2005) No. 38) (《關於對福建上潤精密儀器有限公司申請確認外商投資企業所得稅獲利年度的批覆》(榕開國稅函 (2005)38號)) were issued by the State Tax Bureau of Fuzhou Economic and Technological Development

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Zone (福州經濟技術開發區國家稅務局) on 26 April 2004 and 26 May 2005, respectively. Accordingly, Fujian Wide Plus was exempted from PRC Enterprise income tax from 1 January 2004 to 31 December 2005 and the applicable tax rates from 1 January 2006 to 31 December 2007 was 7.5%.

On 16 March 2007, the National People’s Congress promulgated the new Corporate Income Tax Law (the “New CIT Law”), which took effect from 1 January 2008. Under the New CIT Law, China adopts a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revokes the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that are currently receiving preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to a corporate income tax rate lower than 25% may continue to enjoy a lower rate and gradually transition to the new tax within five years after the effective date of the New CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires, but the two-year exemption from corporate income tax for foreign-invested enterprise began from 1 January 2008 instead of from when such enterprise first becomes profitable. Accordingly, the applicable tax rates for Fujian Wide Plus for the year ended 31 December 2008 is 9%. Fujian Wide Plus was accredited as a hi-tech enterprise in December 2008. Hence, it was granted the tax benefit of reducing corporate income tax rate to 15% for the two years ending 31 December 2010 in accordance with “Notice of Approval for corporate income tax exemptions or reductions” (Rong Kai Guo Jian (2009) No. 159) (《減免稅批准通知書》(榕開國減(2009)159號)) issued by the State Tax Bureau of Fuzhou Economic and Technological Development Zone (福州經濟技術開發區國家稅務局). In the event Fujian Wide Plus is no longer entitled a preferential corporate income tax rate, the Transitional Tax Rate is 24% and 25% in 2011 and 2012 onwards, respectively.

### Value-added Tax

Pursuant to the Provisional Regulations of the PRC on Value Added Tax effective from 1 January 1994 and their implementing rules, all units or individuals who are engaged in the sale of goods, the provision of proceeding, repairs and replacement services, and the importation of goods within the territory of the PRC are required to pay value added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. Input VAT payable by the Group’s subsidiaries in China on purchases is recoverable out of the output VAT collected from its customers, and any excess of output VAT over input VAT paid is payable to the tax authority. The rate of VAT is 17% or in certain limited circumstances, 13% depending on the product type. The Group’s sales in the PRC are subject to VAT at 17%. According to the Notice of the State Council in relation to taxation on imported equipment which took effect on 1 January 1998, for investment project carried out by foreign-invested enterprise that falls within the encouraged category under the Foreign-invested enterprise investment guideline, the self-used equipment (including the technology, components and spare parts associated with the equipment) imported as part of the investment project are exempted from custom duties and input VAT. This was further confirmed by the Customs Authority (海關總署), National Development and Reform Commission(國家發展和改革委員會), Ministry of Finance (財政部) and Ministry of Commerce (商務部) when they issued a joint notice in relation to the preferential policy for foreign-invested enterprise investment project on 13 July 2007. Accordingly, the Group is entitled to the exemption of customs duties and input VAT when it imports self-used equipment and its associated technology, components and spare parts into the PRC.

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### Local Educational Levy

On 11 January 2002, Fujian provincial people’s government issued a Notice in relation to the charge of educational levy on enterprises and individuals within the Fujian province which became effective on 1 January 2002. The educational levy is charged in addition to VAT payable by an enterprise or individual at a rate of 1%.

### REGULATORY MATTERS

#### **The Group Used not to Obtain Necessary Permit for the Production of Safety Barrier Products as Required under the Relevant PRC Laws and Regulations**

During the Track Record Period, the Group used not to obtained necessary permit for the production of safety barrier products as required under the relevant PRC laws and regulations. The reason for the Group not obtaining the permit for the production of safety barrier products was that the Group commenced its production of the safety barrier products in July 2006. Since the staff were not aware of the requirement of lodging application for the relevant permit for the production of safety barrier products, hence, the Group did not lodge any application for obtaining the necessary permit as required by the relevant laws and regulations in the PRC on a timely basis and continued the production of the safety barrier products. On 17 April 2008, the Fujian Provincial Quality and Technology Supervision Bureau (福建省質量技術監督局) accepted the application of Fujian Wide Plus in respect of the permit for the production of safety barrier products. In May 2008, the Group reported the breach to the Fujian Provincial Quality and Technology Supervision Bureau (福建省質量技術監督局) in the PRC. As advised by the Group’s PRC legal adviser, relevant regulatory authorities may confiscate any revenue derived by sales of safety barrier products and may impose a penalty up to and not more than 3 times of the sales value of the safety barrier products sold. Such fines or penalties may in turn have an adverse effect on the Group’s business. On 19 May 2008, the Fujian Provincial Quality and Technology Supervision Bureau (福建省質量技術監督局) granted the exemption of all fines and penalties for the production of safety barrier products without obtaining a valid production permit from July 2006 to April 2008 on the bases that the Group reported the breach voluntarily and there is no relevant directives issued by General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in relation to check whether the enterprises have relevant permits for the production of safety barrier products or impose any fines or penalties for those enterprises which do not possess relevant permits, hence, the Fujian Provincial Quality and Technology Supervision Bureau granted the exemption of all fines and penalties for the production of safety barrier products without obtaining a valid production permit from July 2006 to April 2008. Given the grant of the exemption and confirmation of no further penalties and fines to be charged to the Group by the relevant authority, no provisions for penalties and fines were made in respect of the non-compliance. As advised by the PRC legal adviser of the Group, the Group is not subject to any further charges and penalties and the Group will not face any retroactive actions in relation to the Group’s production of the safety barrier products since July 2006. For each of the three years ended 30 June 2009, the Group’s sales of safety barrier products amounted to approximately RMB20,774,000, RMB[24,868,000] and RMB[20,940,000], respectively, accounting for approximately 4.3%, [4.1%] and [3.4%], respectively, of the Group’s total sales in the respective years.

During April and May 2008, the Group continued to produce safety barrier products under trial production in accordance and in compliance with the relevant regulations of “Implementation Measures for Administrative Ordinance for the License for Production of Industrial Products of the PRC” (《中華人民共和國工業產品生產許可證管理條例實施辦法》) and “Implementation Rules for

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the License for Production of Explosion-proof Electrical Products” (《防爆電氣產品生產許可證實施細則》)。In compliance with aforementioned regulations, (i) random samples of the Group’s trial-produced safety barrier products were sent to China National Quality Supervision and Test Centre for Explosion Protected Electrical Products (國家防爆電氣產品質量監督檢驗中心) and National Supervision and Test Station for Explosion-proof Instrument (國家級儀器儀錶防爆安全監督檢驗站) for inspection and testing, (ii) the trial-produced products fulfilled inspection and testing standards, and (iii) all trial-produced safety barrier products were labeled as “Trial Products” in their packaging and in instruction manuals. The sales of the safety barrier products of the Group in April and May 2008 were approximately RMB2,516,000 and RMB2,216,000, respectively. After satisfying the sales orders on hand, the Group stopped accepting new orders for safety barrier products and all trial productions in June 2008. As advised by the PRC legal adviser to the Group, the Group’s sales of trial-produced safety barrier products labelled as “Trial Products” in their packaging and in instruction manuals are in compliance with relevant laws and regulations in the PRC and the Group is not subject to any penalty consequently. In July 2008, the Group obtained relevant permits for production of the safety barrier products and recommenced production and sale of safety barrier products thereafter.

In order to prevent future breach of relevant legal requirements, the Directors have attended a two-day training course organised by the PRC Legal Adviser to the Group in respect of compliance with relevant PRC laws and regulations in April 2008. The Directors will receive ongoing training on an annual basis after the [●].

Regarding the prevention of future non-compliance with relevant legal requirements for the production of safety barrier products, the Group has employed Dr. Hu Guo Qing, an independent non-executive Director, to provide expert advice as to the classification of any new products of the Group and retained a firm of legal advisers to advise the Group with the latest development of the legal requirements of the production of the Group’s products including but not limited to safety barrier products.

### **The Group Used not to Make Contributions to the Housing Fund**

According to the laws and regulations of the PRC, as part of employees’ welfare and benefits, companies are required to make contributions to a government administered housing fund at a rate of no less than 5% of salaries paid to employees. Fujian Wide Plus, however, used not to make contributions to the housing fund since its incorporation. The reason for not making contribution to the housing fund by the Group during the Track Record Period was that, according to the understanding of the PRC legal adviser to the Group with the responsible persons of the Housing Fund Management Centre of Fuzhou City (福州市住房公積金管理中心), which is a competent authority as advised by the PRC legal adviser to the Group, there is currently no applicable rules in relation to the contribution to the housing fund for employees of the non-state owned enterprises at Fuzhou area. The Group had made verbal enquiries with the responsible persons of the Housing Fund Management Centre of Fuzhou City (福州市住房公積金管理中心) in May 2008 and the Group learnt that (i) in light of the implementation of relevant rules and regulations in Fuzhou City of the PRC, the Group has complied with the relevant local laws and regulations; (ii) the Group can gradually implement the relevant provisions of the rules and regulations relating to the housing fund; (iii) any past or current contributions to the housing fund are not compulsory according to prevailing relevant local rules and regulations; and (iv) any penalties, fines and late charges in relation to the Group’s non-contributions to the housing fund in the past are not required to settle. [As at the Latest Practicable Date], as advised by the PRC legal adviser to the Group, there is no applicable rules in relation to the contribution to the housing fund for employees of the non-state owned enterprises in Fuzhou area. Despite the fact that making



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contribution to the housing fund is not compulsory according to prevailing relevant local rules and regulations, the Group has started to make payments toward the housing fund since May 2008 on a voluntary basis. The Directors believe that making the contributions to the housing fund is to ensure proper adherence to the internal control measures of the Group and to enhance employees' benefits and welfare so as to enable the Group to attract and retain talents which are key to the Group's continual success.

[As at the Latest Practicable Date], as advised by the PRC legal adviser to the Group, the Group has not received any notification or directive from the relevant authority for housing fund contribution and, according to the understanding of the PRC legal adviser to the Group with the Housing Fund Management Centre of Fuzhou City (福州市住房公積金管理中心), it had never imposed penalty on any enterprise for failure to make punctual and full housing fund contribution. [As at the Latest Practicable Date], there was no claims made by the Group's employees due to the Group's non-contribution to the housing fund.

As advised by the PRC legal adviser to the Group, as (i) there is currently no applicable rules in relation to the contribution to the housing fund for employees of the non-state owned enterprises at Fuzhou area; (ii) the Group has not received any notification or directive from the relevant authority for housing fund contribution; (iii) as at the [Latest Practicable Date], there was no claim made by the Group's employees due to the Group's non-contribution to the housing fund; and (iv) the Group has commenced to make contributions to the housing fund since May 2008 voluntarily, therefore, the Group is not contravening against prevailing local laws and regulations for its non-settlement of any penalties, fines and late charges in relation to the Group's non-contributions to the housing in the past.

If the government were to enforce the relevant rules and regulations, Fujian Wide Plus may also be liable for a fine ranging from RMB10,000 to RMB50,000 for failure to contribute to the housing fund. Such fine is charged on one-off basis. An additional daily late charge of 0.3% of the outstanding contribution to the housing fund will be charged to Fujian Wide Plus.

The non-contributed housing fund (inclusive of both employer's and employee's contribution) amounted to approximately RMB2.1 million, RMB2.2 million and nil for each of the three years ended 30 June 2009, respectively. The above non-contributed housing funds have been provided for and were reflected in the Group's consolidated financial statements for the Track Record Period. As at 30 June 2008, as advised by the PRC legal adviser to the Group, the maximum provision of approximately RMB11.4 million has been made by the Group as the maximum late charge and penalty for the non-contributions of the housing fund. As advised by the PRC legal adviser to the Group, the above provision represents the maximum exposure of the Group to the non-contribution of the housing fund and was accrued up to 30 June 2008. [As further advised by the PRC legal adviser to the Group, since May 2008, the Group has commenced its contributions to the housing fund and is in compliance with relevant laws and regulations of the PRC. Therefore, the Group did not further provide for late charges and penalty for the non-contributions of the housing fund.]

On [26] May 2008, Fujian Wide Plus opened an account with the Housing Fund Management Centre of Fuzhou City (福州市住房公積金管理中心) to facilitate contributions to the housing fund.

In order to prevent future breach of relevant legal requirements, the Directors have attended a two-day training course organized by the PRC Legal Adviser to the Group in respect of compliance with relevant PRC laws and regulations in April 2008. The ongoing training for the Directors shall be on an annual basis with the expected duration of approximately two business

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days after the [●]. The course shall be provided by Dacheng Law Offices, the PRC legal adviser to the Group (or any other qualified PRC law firm), and the topics shall cover relevant PRC rules and regulations in the areas of production, sales and marketing, taxation, foreign exchange, labour, social security insurance, environmental compliance and other prevailing rules and regulations that may be relevant to the Group.

In addition, the Group has employed Mr. Cheung Chuen, an executive Director, to oversee the financial reporting and internal control systems of the Group so as to ensure timely payment of the housing fund. [As at the Latest Practicable Date], the Group has enhanced the financial reporting system by implementing computerized accounting system so as to ensure the timeliness, accuracy and completeness of the contributions to the housing fund by the Group.

### **The Group Used not to obtain Medical Insurance Coverage under the Social Insurance Schemes for its Employees**

The Group used not to obtain medical insurance coverage for its employees as required under the relevant PRC laws and regulations. The reason for not making contribution to the medical insurance coverage by the Group during the Track Record Period was that, as advised by the PRC legal adviser to the Group, there is currently no requirements under the Implementation Rules of Basic Medical Insurance Coverage for Staff at Fuzhou Municipal and County Areas (福州市城鎮職工基本醫療保險實施細則) (the “Medical Insurance Rules”) for non-state owned enterprises at Mawei District to make the contribution of medical insurance for employees of non-state owned enterprises. The Medical Insurance Rules do not cover Mawei district, where the principal production facility of the Group is located. According to the understanding of the PRC legal adviser to the Group with the responsible persons of the Medical Insurance Management Centre of Mawei District (馬尾區醫療保險管理中心), which is a competent authority as advised by the PRC legal adviser to the Group, the Medical Insurance Management Centre of Mawei District (馬尾區醫療保險管理中心) does not currently require non-state owned enterprises in Mawei district to make contribution to the medical insurance coverage for their employees. The Group had made verbal enquiries with the responsible persons of the Medical Insurance Management Centre of Mawei District (馬尾區醫療保險管理中心) in May 2008 and the Group learnt that (i) in light of the implementation of relevant rules and regulations in the Mawei District of the PRC, the Group has complied with the relevant local laws and regulations; (ii) the Group can gradually implement the relevant provisions of the rules and regulations relating to the staff medical insurance; (iii) any past or current contributions to the staff medical insurance are not compulsory according to prevailing relevant local rules and regulations; and (iv) any penalties, fines and late charges in relation to the Group’s non-contributions to the staff medical insurance in the past are not required to settle. [As at the Latest Practicable Date], as advised by the PRC legal adviser to the Group, there is no applicable rules in relation to the contribution to the medical insurance for employees of the non-state owned enterprises at Mawei District. Despite the fact that making contribution to the staff medical insurance is not compulsory according to prevailing relevant local rules and regulations, the Group has started to make payments toward the staff medical insurance since June 2008 on a voluntary basis. The Directors believe that making the contributions to the staff medical insurance is to ensure proper adherence to the internal control measures of the Group and to enhance employee benefits and welfare so as to enable the Group to attract and retain talents which are key to the Group’s continual success.

[As at the Latest Practicable Date], as advised by the PRC legal adviser to the Group, the Group has not received any notification or directive from the relevant authority for contribution to medical insurance coverage for its employees and, according to the understanding of the PRC

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legal adviser to the Group with the Medical Insurance Management Centre of Mawei District (馬尾區醫療保險管理中心), it had never imposed penalty on any enterprise for failure to make punctual and full medical insurance coverage contribution.

[As at the Latest Practicable Date], there was no claims made by the Group’s employees due to the Group’s failure to obtain the medical insurance coverage for them. However, as advised by the PRC legal adviser, if the government were to enforce the relevant rules and regulations, relevant regulatory authorities may impose a daily overdue fine of 0.2% of the outstanding premiums on the Group for the failure to pay the premiums on time. The Group may be required by relevant regulatory authorities to pay the outstanding premiums for the medical insurance or subject to fines or other penalties or potential claims by the Group’s employees.

As advised by the PRC legal adviser to the Group, as (i) there is currently no applicable rules in relation to the contribution to the medical insurance for employees of the non-state owned enterprises at Mawei District; (ii) the Group has not received any notification or directive from the relevant authority for medical insurance contribution; (iii) as at the [Latest Practicable Date], there was no claim made by the Group’s employees due to the Group’s non-contribution to the medical insurance; and (iv) the Group has commenced to make contributions to the medical insurance since June 2008 voluntarily, therefore, the Group is not contravening against prevailing local laws and regulations for its non-settlement of any penalties, fines and late charges in relation to the Group’s non-contributions to the housing in the past.

The non-contributed staff medical insurance cost amounted to approximately RMB2.0 million, RMB2.2 million and RMB nil for each of the three years ended 30 June 2009, respectively. The above non-contributed medical insurances have been provided for and were reflected in the Group’s consolidated financial statements of the Track Record Period. [As at 30 June 2008, as advised by the PRC legal adviser to the Group, the maximum provision of approximately RMB7.5 million has been made by the Group as the maximum late charge and penalty for the non-contributions of the medical insurance coverage. As advised by the PRC legal adviser to the Group, the above provision represents the maximum exposure of the Group to the non-contribution of the medical insurance coverage and was accrued up to 30 June 2008. [As further advised by the PRC legal adviser to the Group, since May 2008, the Group has commenced its contributions to the medical insurance coverage under the social insurance schemes of its employees and is in compliance with relevant laws and regulations of the PRC. Therefore, the Group did not further provide for late charges and penalty for the non-contributions of the medical insurance coverage under the social insurance schemes of its employees.]

In order to prevent future breach of relevant legal requirements, the Directors have attended a two-day training course organized by the PRC legal adviser to the Group in respect of compliance with relevant PRC laws and regulations in April 2008. The ongoing training for the Directors shall be on an annual basis with the expected duration of approximately two business days after the [●]. The course shall be provided by Dacheng Law Offices, the PRC legal adviser to the Group (or any other qualified PRC law firm), and the topics shall cover relevant PRC rules and regulations in the areas of production, sales and marketing, taxation, foreign exchange, labour, social security insurance, environmental compliance and other prevailing rules and regulations that may be relevant to the Group.

Regarding the prevention of future non-contributions to the medical insurance coverage, the Group has employed Mr. Cheung Chuen, an executive Director, to oversee the financial reporting and internal control systems of the Group so as to ensure timely payment of the medical insurance

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coverage. [As at the Latest Practicable Date], the Group has enhanced the financial reporting system by implementing computerized accounting system so as to ensure the timeliness, accuracy and completeness of the contributions to the medical insurance coverage by the Group.

Save as disclosed above, the Group has obtained all relevant and valid governmental approvals, permits, licenses and certificates that are necessary for conducting its operations from the local authorities in the locations where its manufacturing facilities are based and has complied with all relevant PRC laws, rules and regulations applicable to its business during the Track Record Period.

### Compliance Measures

The Group has established and implemented comprehensive internal control measures covering all aspects of the Group including, among others, statutory and regulatory compliance control.

The main objectives of the internal control measures are the following:

- (i) to ensure adherence to management policies and directives in order to achieve the Group's objectives;
- (ii) to safeguard assets;
- (iii) to secure relevance, reliability and integrity of information, so as to ensure as much as possible the completeness and accuracy of records; and
- (iv) to ensure compliance with all relevant laws and regulations.

The Group's internal control measures include:

- (i) a defined management structure with limits of authority;
- (ii) designs to help achieve business objectives;
- (iii) designs to safeguard assets against unauthorized use or disposition;
- (iv) procedures to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for external publications; and
- (v) procedures to ensure compliance with relevant legislations and regulations.

The Group had in November 2007 appointed an independent audit firm to conduct a review of the effectiveness of the internal control measures of the Group. The review covered all material controls including financial, operational and compliance controls. Based on the assessments made by the independent audit firm, the Directors are satisfied that:

- (i) the internal controls and accounting systems of the Group have been in place and functioning effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorisation and the financial statements are reliable for publication; and

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- (ii) there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

In the area of compliance with all relevant rules and regulations, an internal compliance team comprising 12 members, has been set up to review the adherence to relevant laws and regulations, listing rules compliance, public disclosure requirements and our standards of compliance practices. Furthermore, our internal compliance team is responsible for overseeing the implementation of guidelines to ensure that all the relevant laws and regulations are complied with. In respect of the existing licenses and approvals obtained by the Group, our internal compliance team will also conduct regular review to ensure that all licenses and approvals are valid and subsisting and that renewals of such licenses are made in a timely manner. Our internal compliance team is headed by Mr. Zou Chong, an executive Director and deputy general manager of the Group, who has extensive experience in business administration and risk management, and the team comprises a group of senior officers from our accounting, purchasing, production & inventory and sales & marketing departments with extensive collective experience in handling licensing applications, renewals and statutory and regulatory compliance matters.

The designated senior officer in each department will work closely with the internal compliance team to oversee regulatory compliance and ensure that our internal compliance guidelines are strictly followed. We have engaged the PRC legal adviser to the Group to provide training to our staff, in particular, concerning the latest changes and developments on relevant rules and regulations including but not limited to licensing, statutory and regulatory compliance matters. The Group’s internal compliance team will also report to the Board the status of new licenses and approval applications, renewal progress as well as compliance issues on a quarterly basis. The Board monitors the Group’s internal control measures on an ongoing basis to evaluate the status, recommend appropriate actions and, if necessary, seek further advice from independent external professional advisors to further enhance the Group’s internal control measures.

The Group will also disclose in its annual report the findings on the matters relating to the compliance with the internal compliance guidelines as well as all relevant laws and regulations reviewed by the independent non-executive Directors as part of their annual review of the Group’s internal control procedures.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### DIRECTORS

The Board consists of seven members, of whom three are independent non-executive Directors.

#### Executive Directors

**Mr. Wong Fun Chung (黃訓松)**, aged 56, is the chairman of the Board, the chief executive officer of the Company and founder of the Group. He was appointed as an executive Director of the Company on 29 November 2007. Mr. Wong has been brought up and lived in the PRC for a substantial period of time and was graduated from Tianjin University (天津大學) in 1978 specializing in high precision timing instruments (計時儀器專業) and has over 20 years' experience in the production of horological instruments. During his career in the horological industry, Mr. Wong has been recognized as one of the top one hundred youth factory managers in China, which is awarded jointly by China Youth Magazine (中國青年雜誌社), China Enterprise Management Association (中國企業管理協會), Central Propaganda Department of the Chinese Communist Youth League (中國共產主義青年團中央宣傳部) and China Central Television Station (中央電視臺). In 1989, Mr. Wong was approved as an engineer by the Fujian Provincial Bureau of Personnel (福建省人事局). In 1987, Mr. Wong was the factory manager of the Fuzhou Watch Factory (福州手錶廠), a state-owned enterprise. In 1990, one of the quartz clock movement products developed by Mr. Wong was awarded third prize in the technological advancement award by the National Science and Technology Advancement Award Adjudication Committee (國家科學技術進步評審委員會). Mr. Wong is responsible for the formulation of the Group's corporate strategy, overseeing its production operations and the overall steering of the Group's strategic development.

**Mr. Zou Chong (鄒崇)**, aged 39, was appointed as an executive Director of the Company on 2 July 2008 and is the deputy general manager of the Group. Mr. Zou graduated from the Sichuan University (四川大學) in 1991 specialising in computer application (計算機應用專業). In 1991, Mr. Zou joined Fuzhou Shanglun as a technician. In 2003, he joined Fujian Wide Plus as a deputy general manager. He had participated in the development of the “WP-series Multi-channel Embedded-type Colored Paperless Recorder” (WP-系列多通道嵌入式彩色顯示無紙記錄儀), which, together with Mr. Tang Chong Sen, was awarded the “Grade Three of Fuzhou Science and Technology Advancement Award (福州市科學技術進步三等獎)” by Fuzhou Municipal Government in 2006. Mr. Zou is responsible for the technical service centre, system integration, purchasing and sales and marketing of the Group.

**Mr. Su Fang Zhong (蘇方中)**, aged 59, was appointed as an executive Director of the Company on 2 July 2008 and is the deputy general manager of the Group. He graduated from Fujian Broadcasting Television University (福建廣播電視大學) in 1990 specializing in financial accounting (財務會計). In 1991, Mr. Su successfully completed quality management (計量管理) training provided by the State Bureau of Technical Supervision (國家技術監督局). In 1990, Mr. Su worked as an assistant engineer of the Fuzhou Watch Factory (福州手錶廠). In 2003, he was approved as an electrical engineer (intermediate level) (中級電子工程師) by the Intermediate and Primary Level Adjudication Committee of the Fuzhou City Rural Enterprise Engineering Department (福州市鄉鎮企業工程系列中、初級評委會). Mr. Su was recognized by the Fuzhou Bureau of Light Industry (福州市輕工業局) as an outstanding performer in the technological development of light industry system (輕工系統技術開發優秀工作者) in 1989 and also as a pioneer worker in production management (生產管理先進工作者) in 1991. In 2003, he joined Fujian Wide Plus as a deputy general manager. Mr. Su is responsible for the warehouse management, production workshops and quality control of the Group.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Mr. Cheung Chuen (張全)**, aged 35, was appointed as an executive Director of the Company on 2 April 2008. He is also the company secretary of the Company. Mr. Cheung graduated from the Hong Kong Shue Yan College (presently Hong Kong Shue Yan University) in 1999 majoring in accounting and obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2004. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 10 years of experience in accounting and auditing. He is an independent non-executive director of Broad Intelligence International Pharmaceutical Holdings Limited and Sinotronics Holdings Limited as at the [Latest Practicable Date], both of which are companies listed in Hong Kong. Mr. Cheung is responsible for the management reporting and planning of the Group, and is in charge of all the Group’s financial and statutory reporting.

Mr. Cheung Chuen is involved in an outstanding litigation case as a defendant. In 2002, the plaintiff brought a claim against Mr. Cheung Chuen and alleged there had been publications of defamatory words in several letters and/or articles by Mr. Cheung Chuen and the plaintiff’s claim against Mr. Cheung Chuen is defamation (the “Action”). The plaintiff seeks unliquidated damages with legal costs and interests. The Action started in 2002, was actively proceeded on by the parties until 18 April 2004 when the plaintiff filed its reply to the amended defence. Thereafter and as at the [Latest Practicable Date], the Action has been brought to a complete standstill. Mr. Cheung Chuen has been advised by his legal adviser that he had good merits of the Action.

### Independent Non-executive Directors

**Dr. Hu Guo Qing (胡國清博士)**, aged 45, was appointed as an independent non-executive Director of the Company on 2 April 2008. Dr. Hu graduated from the Department of Aviation Automation Control (航空自動控制系) of the Northwestern Polytechnical University (西北工業大學) in 1987 and acquired his doctorate degree from the Department of Hydraulic Engineering (水利工程系) of the Chengdu University of Science and Technology (成都科技大學) in 1993. Since 1993, Dr. Hu has been involved in scientific research and academic teaching in areas such as MEMS technology, sensor technology, industrial automation, mechanical control engineering and automation control. Dr. Hu is currently a Professor at the College of Industrial Equipment and Control Engineering of the South China University of Technology (華南理工大學).

**Ms. Ji Qin Zhi (吉勤之)**, aged 68, was appointed as an independent non-executive Director of the Company on 2 April 2008. Ms. Ji graduated from the Department of Precision Instruments Engineering (精密儀器工程系) of Tianjin University (天津大學) in 1964 and acquired the qualification of Senior Engineer in 1988. She was appointed as an independent non-executive director of Shenzhen Fiyta Holdings Limited, a company listed on Shenzhen Stock Exchange, in 2006. She is currently the vice president of the Horology Association of the People’s Republic of China.

**Mr. Chan Yuk Hiu, Taylor (陳玉曉)**, aged 31, was appointed as an independent non-executive Director of the Company on 2 April 2008. Mr. Chan graduated from Hong Kong Shue Yan College (presently Hong Kong Shue Yan University) with an Honours Diploma in Accounting. He is an associate member of The Hong Kong Institute of Certified Public Accountants and a member of The Association of Chartered Certified Accountants. Since graduation he has acquired accounting and company secretarial work experience both from certified public accountants firms and listed companies. In March 2004, he was appointed as the Qualified Accountant of Tianjin Capital Environmental Protection Company Limited, a company listed on the Main Board of the Stock Exchange. In May 2006, he was appointed as both Company Secretary and Qualified

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Accountant of FAVA International Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chan has over eight years of experience in professional accounting and auditing practice.

### SENIOR MANAGEMENT

**Mr. Zou Chong (鄒崇)** is the deputy general manager of the Group. His particulars are set out in the paragraph headed “Executive Directors” above.

**Mr. Su Fang Zhong (蘇方中)** is the deputy general manager of the Group. His particulars are set out in the paragraph headed “Executive Directors” above.

**Mr. Tang Chong Sen (唐崇森)**, aged 69, graduated from the Mechanical Engineering Department (電機系) of the Harbin Institute of Technology (哈爾濱工業大學) in 1964 specialising in electrical measurement technology (電氣測量技術專業). In 1992, he was an associate professor of the Electrical Engineering Department of Fuzhou University specializing in industrial electrical automation system (工業電氣自動化). In 1995, Mr. Tang joined Fuzhou Shanglun as a chief engineer (electrical). In 2003, he joined Fujian Wide Plus as a chief engineer. Mr. Tang had been the researcher of various provincial new product development projects. In 2002, the WP-series Intelligent Flow Controller for Natural Gas (WP-系列天然氣智能流量控制儀) co-developed by Mr. Tang also received the “Grade Three of Fujian Science and Technology Advancement Award (福建省科學技術獎三等獎)” by Fujian Provincial Government of the PRC. In 2006, the “WP-series Multi-channel Embedded-type Colored Paperless Recorder” (WP-系列多通道嵌入式彩色顯示無紙記錄儀) which was co-developed by Mr. Tang and Mr. Zou Chong was awarded “Grade Three of Fuzhou Science and Technology Advancement Award (福州市科學技術進步三等獎)” by Fuzhou Municipal Government. Mr. Tang is the chief electrical engineer of the Group and is responsible for overseeing the design and processing of electrical products and electronic software research and development of the Group.

**Mr. Gao Wen Jiang (高文江)**, aged 67, graduated from the Agricultural Machinery Department (農業機械系) of the Fujian Institute of Agriculture (福建農學院) specialising in agricultural mechanisation (農業機械化專業) in 1964. In 1990, Mr. Gao was the deputy technical factory manager of Nanchang Watch Factory (南昌手錶廠). From 1993 to 2004, he was the deputy general manager of Guang Yu Electronic Industrial Co., Ltd. (廣宇電子實業有限公司). Mr. Gao joined Fujian Wide Plus as a chief mechanical engineer in 2004 and has been holding the same position for the Group. He is responsible for overseeing the crafts processing and high precision mechanical research and development of the Group.

### COMPANY SECRETARY

Mr. Cheung Chuen (張全) is appointed as the company secretary of the Group. His particulars are set out in the paragraph headed “Executive Directors” above.

### CORPORATE GOVERNANCE

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.



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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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In accordance with the requirements of the Listing Rules, the Company has established the audit committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules and appointed a qualified accountant to oversee the financial reporting procedures and internal controls of the Group so as to ensure compliance with the Listing Rules.

To further enhance the Group’s corporate governance and its transparency, the Company has also established the nomination committee and the remuneration committee. The Group has also implemented a compliance manual which covers areas such as ongoing compliance obligations of the Company and the Directors, business operations of the Group, financial management systems, human resources management systems, internal control systems and quality assurance.

### **AUDIT COMMITTEE**

The Group has established its audit committee (the “Audit Committee”) on [25 August] 2008 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Group’s financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board. The Audit Committee comprises all 3 independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor has been appointed as the Chairman of the Audit Committee.

### **REMUNERATION COMMITTEE**

The Group has established its remuneration committee (the “Remuneration Committee”) on [25 August] 2008 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company’s policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee comprises all 3 independent non-executive Directors, namely Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor has been appointed as the Chairman of the Remuneration Committee.

### **NOMINATION COMMITTEE**

The Group has established a nomination committee (the “Nomination Committee”) on [25 August] 2008 with written terms of reference as recommended under the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the Board on appointment and removal of Directors and management of the succession of the Board. The Nomination Committee comprises all 3 independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor has been appointed as the Chairman of the Nomination Committee.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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[•]

### DIRECTORS’ REMUNERATION

During the Track Record Period, the level of remuneration of the Directors was comparatively low because the main focus of the Group was to concentrate its effort and its resources to develop and enhance the products of the Group and improve the market penetration of the Group’s products so as to achieve the market share of the Group. During the Track Record Period, the Directors considered foregoing their respective short term financial benefits so as to establish the long term reputation of the Group.

The Remuneration Committee will regularly review and determine from time to time the remuneration and compensation of the Directors and the senior management of the Group. The Group’s remuneration policy regarding the Directors, including the discretionary bonus, has taken into account (i) the responsibilities of the staff concerned; (ii) the performance of the staff concerned; (iii) the financial performance of the Group; (iv) the remuneration package for a member of staff, who has similar capacity and responsibility in the Group, in the market; and (v) the structure of the incentive scheme, such as the Share Option Scheme after the [•].

The aggregate amount of fees, salaries and allowances, share-based payments and retirement benefit scheme contributions (the “Remuneration”) incurred by the Group to the Directors, collectively, for each of the years during the Track Record Period were RMB[0.3] million, RMB[2.6] million and RMB9.9 million, respectively.

The expecting amount of the Remuneration of the Directors (excluding share-based payments), collectively, for the year ending 30 June 2010 is approximately RMB2.6 million (equivalent to approximately HK\$2.9 million). The Remuneration is reflecting (i) the remuneration packages of similar capacity and responsibilities in the Group and/or in the market and (ii) the responsibilities of the staff concerned. In addition, there was an equity-settled share-based compensation paid to the Directors of approximately RMB[8.8] million during the financial year ended 30 June 2009. Since all of the share options granted were unconditionally cancelled by the Directors on 21 January 2009, [the equity-settled share-based compensation for the financial year ending 30 June 2010 will be at nil amount.]

Save as disclosed above, no other payments have been paid or are payable, during the Track Record Period, by the Company or any of its subsidiaries to the Directors.

### STAFF

[As at the Latest Practicable Date], the Group had a total of [881] full-time employees. Set out below is a breakdown of the number of staff of the Group by function as at the [Latest Practicable Date]:

Management	[17]
Production	[618]
Finance and administration	[80]
Sales and after-sales services	[71]
Research and development	[95]
<b>Total</b>	<b>[881]</b>

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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### **RELATIONSHIP WITH STAFF**

The Directors recognise the importance of good relationship with the employees of the Group. The remuneration payable to the Group’s employees includes salaries, allowances and bonuses. The allowance provided by the Group includes education, housing and night shift allowance. The Group also provides training to its employees to enhance their technical skills, knowledge of operation and production.

The Group has not experienced any significant problems with its employees and no disruption to the operation of the Group has been caused as a result. The Directors believe that the Group has good and stable working relationships with all of its employees.

As advised by the PRC legal adviser to the Group, save for the non-contributions to the housing fund and the medical insurance disclosed in the section headed “Business — Regulatory Matters” in this document, the Group has complied with all applicable labour laws and regulations.

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**SHARE CAPITAL**

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**Authorised Share Capital:**

	<i>HK\$</i>
<u>[10,000,000,000]</u> Shares	<u>[1,000,000,000]</u>

**Issued and to be Issued, Fully Paid or Credited as Fully Paid:**

(a) Assuming the [●] is not exercised, the Company’s share capital immediately following the [●] will be as follows:

*Issued and to be issued, fully paid or credited as fully paid upon completion of the [●]*

**Shares**

	<i>HK\$</i>
3,800,000 Shares in issue at the date of this document	380,000
879,442 Shares to be issued upon full conversion of the [First CB and Transferred CBs as stated in section headed “History and Development”]	87,944
[745,320,558] Shares to be issued pursuant to the Capitalisation Issue	[74,532,056]

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## SHARE CAPITAL

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- (b) Assuming the [●] is exercised in full, the Company’s share capital immediately following the [●] will be as follows:

*Issued and to be issued, fully paid or credited as fully paid upon completion of the [●]*

### Shares

		HK\$
3,800,000	Shares in issue at the date of this document	380,000
879,442	Shares to be issued upon full conversion of the [First CB and Transferred CBs as stated in section headed “History and Development”]	87,944
[745,320,558]	Shares to be issued pursuant to the Capitalisation Issue	[74,532,056]

### Share Option Scheme

The Company has conditionally adopted the Pre-IPO Share Option Scheme and [the Share Option Scheme.] The Pre-IPO Share Option Scheme was terminated pursuant to a resolution passed in the meeting of the Board on 18 August 2009. There were 50,000,000 options granted on 21 April 2008 before termination of the Pre-IPO Share Option Scheme and no such option has been exercised. On 21 January 2009, all of the said 50,000,000 options granted were unconditionally cancelled by the grantees of the Pre-IPO Share Option Scheme. The principal terms of the Share Option Scheme is summarized in the paragraph headed “Share Option Scheme” in Appendix VI to this document.

### Issuing Mandate

The Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares with a total nominal value of not more than the sum of:

- (i). 20% of the total nominal amount of the Company’s issued share capital immediately following the completion of the [●] and the Capitalisation Issue (excluding any Shares which may be issued upon the exercise of the [●] or options that may be granted under the Share Option Scheme); and
- (ii). the total nominal amount of the Company’s issued share capital repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares (as referred to below).

This mandate does not apply to situations where the Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or shares to be issued upon exercise of options to be granted under the Share Option Scheme.

This mandate will expire:

- at the conclusion of the Company’s next annual general meeting; or
- at the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held; or

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## SHARE CAPITAL

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- at the time when such mandate is revoked, varied or renewed by an ordinary resolution of the Company’s Shareholders in general meeting,

whichever is the earliest.

For further details of this issuing mandate, please refer to the paragraph headed “Written resolutions of all Shareholders passed on [●] 2009” in Appendix VI to this document.

### **Repurchase Mandate**

The Directors have been granted the repurchase mandate, which is a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following completion of the [●] and the Capitalisation Issue (excluding any Shares which may be issued upon the exercise of the [●] or options that may be granted under the Share Option Scheme).

This mandate relates only to repurchase made on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Repurchase by the Company of its own securities” in Appendix VI to this document.

The repurchase mandate will expire:

- at the conclusion of the Company’s next annual general meeting; or
- at the expiration of the period within which the Company’s next annual general meeting is required by the Articles or any applicable law to be held; or
- at the time when such mandate is revoked or varied by an ordinary resolution of the Company’s shareholders in general meeting, whichever is the earliest.

For further details of this repurchase mandate, see the paragraph headed “Written resolutions of all Shareholders passed on [●] 2009” in Appendix VI to this document.

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## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the [●] (but without taking into account the exercise of the [●]), the only persons who will have an interest or short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of the issued and outstanding share capital of the Company then in issue carrying rights to vote in all circumstances at the general meetings of the Company, together with any other Shareholders beneficially owning more than 5% of the outstanding or issuable Shares of the Company, are as follows:

Name	Long/Short Position	Capacity/Nature of Interest	Number of Shares that person has or is deemed to have interest in immediately following completion of the [●] and the Capitalisation Issue	Approximate percentage of the interest in the issued share capital of the Company
Mr. Wong	Long Position	Beneficial owner	[●]	[●]%
	Long Position	Interest in a controlled corporation	[●] <sup>(1)(3)</sup>	[●] in total [●]%
Mr. Wong Sun Hoi	Long Position	Beneficial owner	[●]	[●]%
	Long Position	Indirect interest	[●] <sup>(2)(3)</sup>	[●] in total [●]%
Fortune Plus <sup>(3)</sup>	Long Position	Beneficial owner	[●]	[●]%
Standard Bank Plc	Long Position	Beneficial owner	[●]	[●]%
Orchid Asia IV, L.P.	Long Position	Beneficial owner	[●]	[●]%

*Notes:*

- (1) These 96,800,000 Shares are indirectly held by Mr. Wong through Fortune Plus (in which Mr. Wong is deemed to be interested by virtue of his 66.6% equity interest in Fortune Plus for the purposes of the SFO).
- (2) Fortune Plus is beneficially owned by Mr. Wong Sun Hoi as to 10.99% and Mr. Wong Sun Hoi is regarded as interested in 10.99% of the shareholding owned by Fortune Plus.
- (3) Fortune Plus is a company incorporated in the British Virgin Islands whose share capital is owned as to [66.6]% by Mr. Wong, [10.99]% by Mr. Wong Sun Hoi, [7.55]% by Mr. Ng Hiu King, [7.73]% by Investidea Investments Limited and [7.13]% by Sea Princess International Investments Limited.





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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

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The Group has its own management, sales and marketing, administration, finance, purchasing, production, quality control and warehousing functions which are responsible for daily operations of the Group.

Except for Mr. Wong, who is the Controlling Shareholder, the Directors and senior management of the Group are independent of the Controlling Shareholder.

### **Customers of the Group**

For each of years during the Track Record Period, the Group’s top five customers accounted for an aggregate of approximately [47.0]%, [33.2]% and [33.2]% of its total sales, respectively. None of the Directors or their respective associates, or the Company’s existing Shareholders who own more than 5% of its issued share capital, has any interest in any of the five largest customers of the Group. The Group has its own access to its customers independently.

### **Procurement of Raw Materials**

During the Track Record Period, the Group’s top five suppliers accounted for an aggregate of approximately [80.6]%, [76.8]% and [72.8]% of its total purchase, respectively. None of the Directors or their respective associates, or the Company’s existing Shareholders who own more than 5% of its issued share capital, has any interest in any of the five largest suppliers of the Group. The Group has its own access to its suppliers independently.

### **Intellectual Property Rights**

The Directors believe that the 11 trademarks, 31 patents and 4 software copyright are the results of applying advanced technologies, experience, expertise and processes design of the Group. All intellectual property rights are registered in the name of Fujian Wide Plus except those pending completion of transfer set out in the paragraph headed “Intellectual property rights” in Appendix VI to this document and the logo of the Company which is undergoing registration in the PRC.

### **Leasing and Ownership of Properties**

The Group leases its headquarters in Hong Kong and its sole manufacturing facilities in the PRC from the Independent Third Parties. In order to cope with the Group’s future development, the Group acquires a site located at Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC from an Independent Third Party.

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

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### Financial Independence

The corporate guarantees provided in favour of the banks for securing the bank borrowings of the Group by the Controlling Shareholder represented approximately [29.7]%, [71.4]% and [69.6]%, respectively, of the Group’s total bank borrowings during the Track Record Period.

All corporate guarantees provided by the related parties or personal guarantee provided by the Controlling Shareholder, subject to the terms and conditions in the Variation Agreement and Undertaking to Release (details of which have been set out in the section headed “History and Development” in this document), will be released or replaced by the Group’s corporate guarantee within five business days immediately after the [●].

The outstanding balances due from/to related parties including amounts due from/to Shareholders of the Company as at 30 June 2009 will be settled upon the [●].

Therefore, in view of the above fact, the Group is considered independent in all material aspects of financial, management and operations of the Controlling Shareholder.

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## **CONNECTED TRANSACTION**

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The Company has entered into an agreement with its Connected Person (as defined under Chapter 14A of the Listing Rules) during the Track Record Period. The transaction constitutes a connected transaction of the Company under the Listing Rules.

### **DISCONTINUED CONNECTED TRANSACTION**

Given that Ms. He Yuzhu was one of the Substantial Shareholders of the Company, who was a Connected Person of the Company, the lease referred below between Ms. He Yuzhu and Fujian Wide Plus, a wholly-owned subsidiary of the Company constituted a connected transaction of the Company within the meaning of the Listing Rules in the Track Record Period.

#### **Lease Agreement**

Pursuant to a lease agreement dated 1 July 2007 entered into between Fujian Wide Plus, a wholly-owned subsidiary of the Company and Ms. He Yuzhu, Ms. He Yuzhu has agreed to lease to Fujian Wide Plus the office unit of a lettable area of approximately 112 sq.m. situated at Level 15 of Zhong Mei Mansion, No. 107 Gu Tian Road, Fuzhou City, Fujian Province, the PRC (being the property numbered 3 referred to in the property valuation report conducted by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, as set out in Appendix IV to this document) for a term commencing from 1 July 2007 to 1 July 2009 with fixed monthly rentals of RMB5,090. The said lease agreement has been renewed for the period from 1 July 2009 to 1 July 2011 at a monthly rent of RMB5,090. Jones Lang LaSalle Sallmanns Limited has reviewed the leasing agreement and has confirmed that the current rental payable by the Group is at market rate and is fair and reasonable to the Group.

Since Ms. He Yuzhu ceased to be a Substantial Shareholder of the Company on 2 February 2009, and she is no longer regarded as a Connected Person under the Listing Rules, thus the above transaction is not a connected transaction within the meaning of the Listing Rules.

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## FINANCIAL INFORMATION

### SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The Group’s selected consolidated financial data set forth below has been extracted from the consolidated financial information of the Group as of [30 June 2007, 2008 and 2009] and for the three financial years ended 30 June 2009, all of which are set forth in the Accountants’ Report included as Appendix I to this document (the “Financial Information”). As more fully described in Appendix I, the Financial Information was prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

Investors should read these selected consolidated financial data together with Appendix I to this document and the discussion under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

#### Selected Consolidated Income Statement Data

	Year ended 30 June		
	2007 RMB'000	2008 RMB'000	2009 RMB'000
<b>Turnover</b>	479,251	600,904	[620,003]
Cost of sales	<u>(257,209)</u>	<u>(317,930)</u>	<u>[(323,762)]</u>
<b>Gross profit</b>	222,042	282,974	[296,241]
Other revenue	1,950	1,425	[1,436]
Other expenses	(5,780)	(9,702)	[—]
Other net (losses)/gain	(110)	(3,112)	[63]
Distribution costs	(3,075)	(3,972)	[(3,833)]
Administrative expenses	<u>(12,778)</u>	<u>(25,681)</u>	<u>[(45,341)]</u>
<b>Profit from operations</b>	202,249	241,932	[248,566]
Finance costs	<u>(2,030)</u>	<u>(2,935)</u>	<u>[(5,775)]</u>
<b>Profit before taxation</b>	200,219	238,997	[242,791]
Income tax	<u>(15,574)</u>	<u>(26,925)</u>	<u>[(42,834)]</u>
<b>Profit for the year</b>	<u>184,645</u>	<u>212,072</u>	<u>[199,957]</u>
Effective tax rate (%)	<u>7.8</u>	<u>11.3</u>	<u>[17.6]</u>
Dividend declared and paid during the year	<u>280,864</u>	<u>—</u>	<u>[230,326]</u>
Earnings per share (cents)			
— basic	24.62	28.28	[26.66]
— diluted	<u>24.62</u>	<u>[28.15]</u>	<u>[26.66]</u>

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## FINANCIAL INFORMATION

### Selected Consolidated Balance Sheet Data

	As at 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	55,814	56,133	[57,256]
Construction in progress	650	31,354	[71,043]
Lease prepayments	10,656	10,656	[10,656]
Deferred tax assets	750	1,569	[2,676]
	<u>67,870</u>	<u>99,712</u>	<u>[141,631]</u>
<b>Current assets</b>			
Inventories	22,513	33,355	[28,630]
Trade and other receivables	141,932	263,973	[289,875]
Amounts due from related parties	1,907	—	[—]
Cash and cash equivalents	153,908	191,701	[203,474]
	<u>320,260</u>	<u>489,029</u>	<u>[521,979]</u>
<b>Current liabilities</b>			
Bank loans	21,808	56,024	[78,997]
Trade and other payables	85,261	124,926	[159,011]
Amounts due to shareholders of the Company	9,795	4,836	[5,731]
Amounts due to related parties	4,200	12,098	[20,413]
Current taxation	4,634	6,378	[10,587]
Provision for warranty	355	645	[1,055]
	<u>126,053</u>	<u>204,907</u>	<u>[275,794]</u>
<b>Net current assets</b>	<u>194,207</u>	<u>284,122</u>	<u>[246,185]</u>
<b>Total assets less current liabilities</b>	262,077	383,834	[387,816]
<b>Non-current liabilities</b>			
Bank loans	3,808	—	[—]
Deferred tax liabilities	—	5,767	[17,785]
	<u>3,808</u>	<u>5,767</u>	<u>[17,785]</u>
<b>NET ASSETS</b>	<u>258,269</u>	<u>378,067</u>	<u>[370,031]</u>

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## FINANCIAL INFORMATION

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	<b>As at 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Capital and reserves</b>			
Share capital	104,143	342	[342]
Reserves	<u>154,126</u>	<u>377,725</u>	<u>[369,689]</u>
<b>TOTAL EQUITY</b>	<b><u>258,269</u></b>	<b><u>378,067</u></b>	<b><u>[370,031]</u></b>

### Selected Consolidated Cash Flow Statement Data

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	184,104	136,781	[262,520]
Net cash used in investing activities	(17,048)	(30,029)	[(46,798)]
Net cash generated from/(used in) financing activities	(250,246)	(68,959)	[(203,949)]

### INDEBTEDNESS

#### Borrowings

As at the close of business on [30 June] 2009, the [latest practicable date] for the purpose of the indebtedness statement, the Group had aggregate banking facilities of approximately RMB[83,997,000], of which approximately RMB[78,997,000] were utilized.

A breakdown of the Group's bank loans on [30 June] 2009 by due date is as follows.

Due within one year . . . . .	RMB[78,997,000]
Due in the second year . . . . .	[—]

#### Collateral

As at [30 June] 2009, bank borrowings of the Group totaling RMB[55,000,000] were secured by personal guarantees provided by Mr. Wong and a third party. The said personal guarantees will be replaced by guarantees of the Company of prior to the [●].

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## FINANCIAL INFORMATION

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### Capital Commitments and Other Commitments

#### *Capital commitments*

The following table summarizes our capital commitments as at the dates indicated.

	<b>As at 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	—	46,842	[12,480]
Authorised but not contracted for	<u>256,650</u>	<u>181,970</u>	<u>[184,127]</u>
	<u>256,650</u>	<u>228,812</u>	<u>[196,607]</u>

[The capital commitments we made represented our construction of manufacturing plants and our acquisition of production facilities for the new plants.]

#### *Operating leases commitments*

The following table summarizes our total future minimum lease payments under non-cancellable operating leases as at the dates indicated.

	<b>As at 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	487	1,847	[1,244]
After 1 year but within 5 years	—	3,915	[3,658]
After 5 years	<u>—</u>	<u>9,671</u>	<u>[8,727]</u>
	<u>487</u>	<u>15,433</u>	<u>[13,629]</u>

The Group is the lessee in respect of properties held under an operating lease. The lease typically runs for an initial period of [2] to [15] years, with an option to renew the leases upon expiry when all terms are renegotiated. The lease does not include contingent rentals.

#### **Debt Securities**

As at the close of business on [30 June] 2009, the Group had no debt securities issued outstanding, or authorised or otherwise created but unissued.

#### **Contingent Liabilities**

The Group had no material contingent liabilities as at [30 June] 2009.

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## FINANCIAL INFORMATION

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### DISCLAIMER

Save as disclosed in the paragraph headed “Collateral”, as at [30 June] 2009, the Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

### DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

The Directors have confirmed that as at the [Latest Practicable Date], they are not aware of any circumstances which would give rise to a disclosure under Rule 13.13 to Rule 13.19 of the Listing Rules.

### MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Investors should read the following discussion and analysis in conjunction with the consolidated financial information of the Group as of 30 June 2007, 2008 and 2009 and for the three financial years ended 30 June 2009, all of which are set forth in the Accountants’ Report included as Appendix I to this document (the “Financial Information”). Except for the Financial Information, the remainder of the Group’s financial information presented in this section has been extracted or derived from the Group’s unaudited management accounts or other records. Investors should read the whole of the Accountants’ Report and not rely merely on the information contained in this section.*

*The following discussion contains certain forward-looking statements that involve risks and uncertainties. The Group’s actual future results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, without limitation, those discussed in “Risk Factors”, “Business” and elsewhere in this document.*



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### Overview

The Group is one of the market leaders in the automation instrument industry and is engaged in the manufacturing and sale of two distinct but complementary business lines under the Group’s own Wide Plus brand comprising (i) high precision industrial automation instrument and technology products targeting the middle to high-end segments of the industrial automation instrument market, and (ii) horological instruments, namely, multi-functional all plastic quartz watch movements.

According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, the Group was the leading indicator and controller manufacturer and the leading PRC-based (overall top three) pressure transmitter manufacturer in China in terms of number of units sold in 2006. With exception of limited involvements by some domestic enterprises, the middle to higher-end segments of the PRC market with high stability, reliability and precision requirements is oligopolistic in nature and almost exclusively reliant on imports or products manufactured by foreign invested enterprises (三資企業) such as the Group, with a relatively limited number of international brands commanding dominant market positions.

The global quartz watch movement market is an oligopoly market dominated by Seiko and Citizen, and to a lesser extent, the Group and two other leading PRC manufacturers. According to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated [July] 2009, the Group is one of the three industry leaders amongst only [10] PRC quartz watch movement manufacturers and the only enterprise being acknowledged to lead industry innovations in China with products that are of international quality standards.

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### Factors Affecting Financial Results

The Group’s financial results over the Track Record Period have been most significantly impacted by the following factors:

#### *Composition of turnover*

The Group now generates the majority of its annual turnover from the manufacture and sale of high precision industrial automation instrument and technology products (i.e. intelligent digital display, flow accumulate instruments, pressure transmitters and logging control instruments) and a minority of its annual turnover from the manufacture and sale of horological instruments. The respective contributions to total annual turnover from each of these revenue streams have fluctuated in recent years. The following table sets forth total amount, percentage contribution and segment gross profit margins for each of these categories for the years indicated:

	2007		Year ended 30 June			2008		2009	
	RMB'000	Margin <sup>(1)</sup>	%	RMB'000	Margin <sup>(1)</sup>	%	RMB'000	Margin <sup>(1)</sup>	%
High precision industrial automation instrument and technology products	307,351	49.3	64.1	426,115	[50.3]	70.9	[462,425]	[51.0]	[74.6]
Horological instruments	<u>171,900</u>	41.0	<u>35.9</u>	<u>174,789</u>	[39.3]	<u>29.1</u>	<u>[157,578]</u>	[38.4]	<u>[25.4]</u>
<b>TOTAL</b>	<b><u>479,251</u></b>		<b><u>100</u></b>	<b><u>600,904</u></b>		<b><u>100</u></b>	<b><u>[620,003]</u></b>		<b><u>100</u></b>

(1) “margin” means segment gross profit margin, which is calculated by dividing the segment gross profit for the particular category of product for the year specified by the revenue from external customers derived from sales thereof during that same year.

Any change in the percentage of the Group’s total turnover derived from each of these two main product categories may have a direct impact on the Group’s results of operations, particularly its profit margins. As illustrated by the table above, the segment gross profit margins for high precision industrial automation instrument and technology products were higher than those for horological instruments during the Track Record Period. Additionally, the segment gross profit margins on automation products increased each year during the Track Record Period, while the segment gross profit margins on horological instruments decreased during the Track Record Period.

[Segment gross profit margins on sales of high precision industrial automation instrument and technology products increased over the Track Record Period because, while average selling prices thereon remained relatively stable over that time, the Group was able to manage its costs of production to lower the per unit costs. Segment gross profit margins on sales of horological instruments decreased slightly over the Track Record Period because average selling prices thereon decreased over that time as the Group cut its selling prices to win market share in an intensely price competitive market.]

#### ***[Applicable tax rate and tax holiday over the Track Record Period***

Pursuant to the “Detailed Rules for the Implementation of the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises” (“Implementation Rules”), (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》), Fujian Wide Plus, being a manufacturing and foreign investment enterprise situated in the Mawei District in Fuzhou, which is an economic

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and technological development zone, enjoyed a preferential PRC Enterprise Income Tax rate of 15%. Since Fujian Wide Plus is a foreign investment enterprise and is accredited as a new and high technology enterprise, it was granted certain tax relief whereby the profit for the two years starting from 1 January 2004 to 31 December 2005 was exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate in accordance with the Implementation Rules. “Approval for recognition of the application of Fujian Wide Plus for being qualified as a Foreign Investment Enterprise to be granted the ‘two plus three’ tax preferences” (Rong Kai Guo Shui Han (2004) No.74) (《關於對福建上潤精密儀器有限公司申請享受外商投資企業所得稅「免二減三」優惠政策資格確認的批覆》(榕開國稅函(2004)74號)) and “Approval for application for recognizing the profit-making year of Fujian Wide Plus for Foreign Investment Enterprise Income Tax” (Rong Kai Guo Shui Han (2005) No.38) (《關於對福建上潤精密儀器有限公司申請確認外商投資企業所得稅獲利年度的批覆》(榕開國稅函(2005)38號)) were issued by the State Tax Bureau of Fuzhou Economic and Technological Development Zone (福州經濟技術開發區國家稅務局) on 26 April 2004 and 26 May 2005, respectively to approve the tax relief.

On March 16, 2007, the National People’s Congress promulgated the new Corporate Income Tax Law (the “New CIT Law”), which took effect from 1 January 2008. Under the New CIT Law, China adopts a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises). This new law revokes the current tax exemptions, reductions and preferential treatment applicable to foreign-invested enterprises.

However, there is a transition period for enterprises which were entitled to a tax rate lower than 25% before the implementation of the New CIT Law. The rate may gradually increase to the new tax rate within five years after the effective date of the New CIT Law. For enterprises enjoying a reduced tax rate of 15% before the implementation of the New CIT Law, the transitional tax rate is 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 onwards, respectively. Furthermore, enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

As a result of the transitional policies, the applicable tax rate for Fujian Wide Plus of the Group for the year ended 31 December 2008 is 9%. Fujian Wide Plus was accredited as a hi-tech enterprise in December 2008. Hence, it was granted the tax benefit of reducing corporate income tax rate to 15% for the two years ending 31 December 2010 in accordance with “Notice of Approval for corporate income tax exemptions or reductions” (Rong Kai Guo Jian (2009) No. 159) (《減免稅批准通知書》(榕開國減(2009)159號)) issued by the State Tax Bureau of Fuzhou Economic and Technological Development Zone (福州經濟技術開發區國家稅務局).

During the three financial years ended 30 June 2009, the Group’s income tax accounted for 7.8%, 11.3% and [17.6]% of its profit before tax for the years, despite being profitable in each of those years and despite having a net profit margin in each of those years of 38.5%, [35.3%] and [32.3]%, respectively. For further information about this topic, please refer to the section headed “Business — Taxation — Income Tax” in this document as well as Section C Note 6(a) to the Accountants’ Report attached as Appendix I hereto.]

### ***Economic growth in the PRC***

For the three financial years ended 30 June 2009, approximately 86.7%, 86.5% and [89.9]% of the Group’s total turnover was derived from sales in the PRC (other than Hong Kong) while the remainder was derived from sales in Hong Kong. As a result, economic growth in the PRC has a direct impact on virtually all aspects of the Group’s operations, including the level of demand for its high precision industrial automation instrument and technology products and horological

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instruments, the availability and prices of raw materials, as well as the level of other expenses, including labour costs. Notably, unit costs of labour rose over the Track Record Period. General economic growth in the PRC has a particularly acute impact on the demand for the Group’s high precision industrial automation instrument and technology products, the end-users of which are in industries central to China’s ongoing industrialisation and general economic growth, including iron and steel, petrochemicals, power generation, automotive and aviation industries.

According to the latest publicly available information announced by the National Bureau of Statistics of China, the year-to-year increase of GDP and industrial value added of the PRC for the [year] ended 31 December 2008 were approximately [9]% and [9.3]%, respectively and the producer price index for 2008 increased approximately 6.9%. [Further, reference is made to the disclosure in the section headed “Industry Overview” relating to the growth of GDP, fixed asset investment and industrial value added of the PRC from 2001 to [2008].] In view of the above, the Directors consider that there will have a relative stable economic growth and price level in the PRC in foreseeable future and there is no material adverse impact on the Group’s financial performance and its operation because of the change of economic conditions and/or fluctuation of price in the PRC.

### **Average selling prices**

The Directors believe that the average selling prices of the Group’s plastic watch movements have fallen over the Track Record Period due to the decrease in the price of similar products, in general, internationally and in the PRC and that the Group’s reduction of its selling prices to win market share in an intensely price competitive environment. If average selling prices of the Group’s plastic quartz watch movements continue to decline and if the Group cannot secure the favourable prices of the raw materials with its suppliers, the Group’s profitability may be harmed. Please refer to the section headed “Risk Factors” for details.

The following table shows the average selling prices of the Group’s products for the years indicated:

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Average selling price (unaudited)<sup>(1)</sup></b>			
<b><i>Principal High precision industrial automation instrument and technology products</i></b>			
Detectors	[1,843.92]	[1,921.20]	[2,059.38]
Indicators	[450.78]	[446.95]	[447.83]
Controllers	[709.30]	[732.71]	[786.66]
<b><i>Horological instruments</i></b>	<b>[2.62]</b>	<b>[2.06]</b>	<b>[1.85]</b>

<sup>(1)</sup> Average selling price has been computed by dividing the turnover from sales of a particular product category in a given year by the units sold during that time.

Average selling prices of watch movements have fallen over the Track Record Period because the Group cut its selling prices to win market share in an intensely price competitive market. This price pressure made the manufacture of low-end quartz watch movements less

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profitable and has led several manufacturers of quartz watch movements exit this business. To the Group's knowledge, these changes in the market have left only [five] significant manufacturers of low-end quartz watch movements: [two] Japanese and [three] Chinese, including the Group. As a result of the fierce competition and decrease in demand in Group's horological instruments as a result of global financial crisis, the Directors expect that the demand for the Group's horological instruments will decrease in second half of the calendar year of 2010.

The average selling prices of high precision industrial automation instrument and technology products have remained (with a couple of exceptions) relatively stable over the Track Record Period, because the Group believed that if it increased its prices significantly, its sales would suffer, as some customers may opt to purchase equivalent products from foreign manufacturers, while others may opt to purchase lower priced products of inferior quality from other domestic Chinese manufacturers.

Average selling prices of these three sub-categories of the Group's high precision industrial automation instrument and technology products may not present the entire picture however, as within these categories, there may be several types of products each of whose prices are different and may vary widely. Therefore, some variance in the average selling prices in these three categories in the table above may reflect changing product mix within those categories over the Track Record Period, rather than changes of the prices of individual products over time.

During the Track Record Period, the average selling price of detectors of the Group increased from approximately RMB1,843.92 for the financial year ended 30 June 2007 to approximately RMB2,059.38 for the financial year ended 30 June 2009 was mainly attributable to the fact that during the Track Record Period, the increase in sales of [pressure transmitters] and the sales of [electromagnetic flow meters] by the Group, which selling price were higher. The average price of each class of detectors remained stable during the Track Record Period.

The sales of [pressure transmitters] of the Group were approximately RMB2.6 million, RMB16.9 million and RMB30.6 million, respectively, during the Track Record Period, which accounted for approximately 2.7%, 11.8% and 16.3% of the total sales of detectors of the Group, respectively, during the Track Record Period.

The sales of [electromagnetic flow meters] of the Group were approximately RMB0.7 million, RMB8.1 million and RMB29.9 million, respectively, during the Track Record Period, which accounted for approximately 0.7%, 5.6% and 15.9% of the total sales of detectors of the Group, respectively, during the Track Record Period.

During the Track Record Period, the average selling price of indicators of the Group remained stable.

During the Track Record Period, the average selling price of controllers of the Group increased gradually from approximately RMB[709.3] for the financial year ended 30 June 2007 to approximately RMB[786.66] for the financial year ended 30 June 2009. This was mainly attributable to the increase in sales of paperless recorders. The paperless recorder's average selling price is approximately RMB3,500 per unit which is the highest among the controllers sold by the Group. During the Track Record Period, the sales of paperless recorders was approximately RMB2.9 million, RMB19.2 million and RMB29.0 million, respectively, which accounted for approximately 2.4%, 12.9% and 21.5% of the total sales of controllers of the Group.

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### *Financial presentation*

The financial information has been prepared on the basis as if the current group structure had been in existence throughout the Track Record Period. The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group include the results of operations of the companies comprising the Group for the each of the years ended 30 June 2007, 2008 and 2009 (the “relevant period”) (or where the companies were incorporated at a date later than [1 July 2006], for the period from their respective dates of incorporation to 30 June 2009) as if the current group structure had been in existence throughout the relevant period. The consolidated balance sheets of the Group as at 30 June 2007, 2008 and 2009 have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates. All significant intra-group transactions and balances have been eliminated on combination.

Please refer to section A of the accountants’ report set out in Appendix I to this document for further details.

### **Impact of The Recent Financial Crisis and Credit Crunch**

Starting from September 2008, the global economy has been seriously affected by the financial crisis and credit crunch. The continual weak economic sentiment might result in significant decrease in demand from the Group’s customers, and the credit crunch might affect the Group’s financial resources due to reduction in availability of banking facilities. The Directors will therefore closely review the macro-economic environment and monitor the Group’s financial position from time to time.

### **Description of Certain Income Statement Items**

#### *Turnover*

The Group’s turnover is derived from sales primarily inside the PRC (excluding Hong Kong), but an increasing minority of its turnover is derived from sales to Hong Kong as well. The Group now generates the majority of its annual turnover from the manufacture and sale of high precision industrial automation instrument and technology products (i.e. intelligent digital display, flow accumulate instruments, pressure transmitters and logging control instruments) and a minority of its annual turnover from the manufacture and sale of horological instruments.

The following table shows a breakdown of the Group’s turnover by product category and by geographical locations for each of the three financial years ended 30 June 2009:

	<b>Year ended 30 June</b>					
	<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<i>RMB’000</i>	%	<i>RMB’000</i>	%	<i>RMB’000</i>	%
High precision industrial automation instrument and technology products	307,351	64.1	426,115	70.9	[462,425]	[74.6]
Horological instruments	<u>171,900</u>	<u>35.9</u>	<u>174,789</u>	<u>29.1</u>	<u>[157,578]</u>	<u>[25.4]</u>
<b>TOTAL</b>	<b><u>479,251</u></b>	<b><u>100</u></b>	<b><u>600,904</u></b>	<b><u>100</u></b>	<b><u>[620,003]</u></b>	<b><u>100</u></b>

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	Year ended 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC (excluding Hong Kong)	415,712	519,657	557,493
Hong Kong	<u>63,539</u>	<u>81,247</u>	<u>62,510</u>
<b>TOTAL</b>	<b><u>479,251</u></b>	<b><u>600,904</u></b>	<b><u>620,003</u></b>

### Cost of sales

During the three financial years ended 30 June 2009, the Group's cost of sales accounted for 53.7%, 52.9% and [52.2]% of its total annual turnover.

During the Track Record Period, the Group's cost of sales consisted primarily of direct materials costs, direct labour costs and water and electricity costs, as reflected in the following tables which shows a breakdown of the Group's cost of sales by major expense items for each of the years indicated.

	Year ended 30 June					
	2007		2008		2009	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
<b>Total cost of sales</b>						
Direct materials	218.9	85.1	[271.7]	[85.5]	[283.7]	[87.6]
Direct labour	14.4	5.6	[13.9]	[4.3]	[12.7]	[3.9]
Water & electricity	5.5	2.1	[6.6]	[2.1]	[5.3]	[1.7]
Depreciation	5.4	2.1	[6.4]	[2.0]	[6.1]	[1.9]
Others	<u>13.0</u>	<u>5.1</u>	<u>[19.3]</u>	<u>[6.1]</u>	<u>[16.0]</u>	<u>[4.9]</u>
<b>Total</b>	<b><u>257.2</u></b>	<b><u>100</u></b>	<b><u>317.9</u></b>	<b><u>100</u></b>	<b><u>[323.8]</u></b>	<b><u>100</u></b>

	Year ended 30 June					
	2007		2008		2009	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
<b>Cost of sales of high precision industrial automation instrument and technological instruments</b>						
Direct materials	146.2	93.9	[199.5]	[94.2]	[213.5]	[94.2]
Direct labour	3.3	2.1	[3.4]	[1.6]	[4.1]	[1.8]
Water & electricity	1.6	1.0	[1.3]	[0.6]	[1.2]	[0.5]
Depreciation	0.7	0.4	[0.7]	[0.3]	[0.9]	[0.4]
Others	<u>4.0</u>	<u>2.6</u>	<u>[6.9]</u>	<u>[3.3]</u>	<u>[7.0]</u>	<u>[3.1]</u>
<b>Total</b>	<b><u>155.8</u></b>	<b><u>100</u></b>	<b><u>[211.8]</u></b>	<b><u>[100]</u></b>	<b><u>[226.7]</u></b>	<b><u>100</u></b>

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	Year ended 30 June					
	2007		2008		2009	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
<b>Cost of sales of horological instruments</b>						
Direct materials	72.7	71.7	[72.2]	[68.0]	[70.2]	[72.3]
Direct labour	11.1	10.9	[10.5]	[9.9]	[8.6]	[8.8]
Water & electricity	3.9	3.9	[5.3]	[5.0]	[4.1]	[4.2]
Depreciation	4.7	4.6	[5.7]	[5.4]	[5.3]	[5.5]
Others	9.0	8.9	[12.4]	[11.7]	[8.9]	[9.2]
<b>Total</b>	<b>101.4</b>	<b>100</b>	<b>[106.1]</b>	<b>[100]</b>	<b>[97.1]</b>	<b>100</b>

### Gross profit and gross profit margin

	Year ended 30 June					
	2007		2008		2009	
	<i>RMB'000</i>	Gross profit margin %	<i>RMB'000</i>	Gross profit margin %	<i>RMB'000</i>	Gross profit margin %
Turnover	479,251		600,904		[620,003]	
Gross profit <sup>(1)</sup>	222,042	46.3	282,974	47.1	[296,241]	[47.8]

<sup>(1)</sup> Gross profit represents turnover less cost of sales.

For the three financial years ended 30 June 2009, the Group's gross profit margin increased from 46.3% to [47.8]%. The Group's gross profit margin increased between these years because the Group increased in the proportion of earning revenue from the sales of the high precision industrial automation instrument and technology products which had higher gross profit margin compared to that of horological instrument products.

For the three financial years ended 30 June 2009, the gross profit margin for the automation instrument and technology products increased but the gross profit margin of the horological instruments slightly decreased mainly due to the increase in production overhead.

	Year ended 30 June					
	2007		2008		2009	
	<i>RMB'000</i>	Gross profit margin %	<i>RMB'000</i>	Gross profit margin %	<i>RMB'000</i>	Gross profit margin %
<b>Automation instrument and technology products</b>						
Segment turnover	307,351		426,115		[462,425]	
Segment gross profit <sup>(1)</sup>	151,501	49.3	[214,301]	[50.3]	[235,762]	[51.0]

<sup>(1)</sup> Segment gross profit represents segment turnover less segment cost of sales.



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During the financial year ended 30 June 2008, the Group increased its sales of introduction of paperless recorders, pressure transmitters and flow detectors and, consequently, increased its sales of high precision industrial automation instrument and technology products by approximately 38.6% compared to those of the financial year ended 30 June 2007. At the same time, the Group continued to uphold the cost control measures in order to maintain the segment gross margin.

During the financial year ended 30 June 2009, the Group increased its sales of [electromagnetic flow meters], which increased its proportion to total segment sales of the Group from approximately [1.9]% during the financial year ended 30 June 2008 to approximately [6.5]% during the financial year ended 30 June 2009, and increased its sales of paperless recorders, which increased its proportion to total segment sales of the Group from approximately [4.5]% during the financial year ended 30 June 2008 to approximately [6.3]% during the financial year ended 30 June 2009. During the financial year ended 30 June 2009, the Group continued its cost control measures in order to maintain the segment gross margin.

Over the Track Record Period, the automation instrument and technology products segment gross profit increased in line with increase in sales while the average selling price remained relatively stable over the period as well as a stringent cost control on production and the Group could benefit from economy of scale as a result.

Horological instruments	Year ended 30 June					
	2007		2008		2009	
	<i>RMB'000</i>	Gross profit margin %	<i>RMB'000</i>	Gross profit margin %	<i>RMB'000</i>	Gross profit margin %
Segment turnover	171,900		174,789		[157,578]	
Segment gross profit <sup>(1)</sup>	70,541	41.0	[68,673]	[39.3]	[60,479]	[38.4]

<sup>(1)</sup> Segment gross profit represents segment turnover less segment cost of sales.

The segment gross profit of horological instruments has been gradually decreased over the Track Record Period because average selling prices per unit thereof also gradually decreased from RMB[2.62] to RMB[1.85] from 2007 to 2009. The Group cut its selling prices to win market share in an intensely price competitive market.

### ***Distribution costs***

Over the Track Record Period, the Group's distribution costs consisted primarily of wages, advertising fees and trade exhibition expenses, traveling expense and warranty provision. During the three financial years ended 30 June 2009, the Group's distribution costs accounted for 0.6%, 0.7% and [0.6]% of its total turnover.

### ***Administrative expenses***

Over the Track Record Period, the Group's administrative expenses consisted primarily of wages and other staff costs, including equity-settled share-based payment expenses in relation to the Pre-IPO Share Option Scheme granted by the Company, office expenses, rental expenses and R&D costs. During the three financial years ended 30 June 2009, the Group's administrative expenses accounted for 2.7%, 4.3% and [7.3]% of its total turnover.

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### ***Other expenses***

Over the Track Record Period, the Group’s other expenses represented the provisions for maximum late charges and fines in relation to the non-contributions of the medical insurance provision and housing fund.

### ***Finance costs***

Over the Track Record Period, the Group’s finance costs consisted of interest on bank borrowings wholly repayable within five years. During the three financial years ended 30 June 2009, the Group’s finance costs accounted for 0.4%, 0.5% and [0.9]% of its total turnover.

### ***Income tax***

Over the Track Record Period, the Group’s income tax consisted of current and deferred tax. During the three financial years ended 30 June 2009, the Group’s income tax accounted for 3.2%, 4.5% and [6.9]% of its total turnover.

Details of income tax and related information are set out in note 6 to the Accountants’ Report in Appendix I to this document, in which the following items are included:

“Tax concessions” — the amount represents the tax concessions granted by the local tax authority to Fujian Wide Plus of the Group.

“Non-deductible expenses” — the amount mainly comprises the provision of late charges and fines arising from non-contribution of medical insurance and housing fund as discussed in section headed “Business” in this document.

### **Critical Accounting Policies**

The discussion and analysis of the financial condition and results of operations contained elsewhere in this document are based on the consolidated financial statements which have been prepared in accordance with HKFRSs. The reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, the management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 1 of the Accountants’ Report as included in Appendix I to this document. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

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### ***Impairment of assets***

If circumstances indicate that the net book value of property, plant and equipment may not be recoverable, this asset may be considered “impaired”, and an impairment loss may be recognized in accordance with HKAS 36 “Impairment of Assets”. The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgment relating to level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions, sales volume, selling price and amount of operating costs. An increase or decrease in the impairment loss would affect the net profit in future years.

### ***Impairment of trade receivables for bad and doubtful debts***

The Group estimates impairment of trade receivables for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases their estimates on the aging of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated. An increase or decrease in the impairment loss would affect the net profit in future years.

### ***Depreciation***

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during the track record period. The useful lives are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. There have been no significant changes to the estimated useful lives and residual values during the track record period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

### ***Provision for inventories***

The Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value. The Group estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group’s net assets value.

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### Results of Operations

The following table shows the line items of the Group’s income statements expressed as a percentage of turnover for the years indicated:

	Year ended 30 June		
	2007 <i>(in percentage)</i>	2008 <i>(in percentage)</i>	2009 <i>(in percentage)</i>
Turnover	100	100	100
Cost of sales	<u>53.7</u>	<u>52.9</u>	<u>[52.2]</u>
<b>Gross profit</b>	46.3	47.1	[47.8]
Other revenue	0.4	0.2	[0.2]
Other expenses	(1.2)	(1.6)	[—]
Other net (losses)/gain	—	(0.5)	[—]
Distribution costs	(0.6)	(0.7)	[(0.6)]
Administrative expenses	<u>(2.7)</u>	<u>(4.3)</u>	<u>[(7.3)]</u>
<b>Profit from operations</b>	42.2	40.3	[40.1]
Finance costs	<u>(0.4)</u>	<u>(0.5)</u>	<u>[(0.9)]</u>
<b>Profit before taxation</b>	<u>41.8</u>	<u>39.8</u>	<u>[39.2]</u>
Income tax	<u>(3.2)</u>	<u>(4.5)</u>	<u>[(6.9)]</u>
<b>Profit for the year</b>	<u><u>38.5</u></u>	<u><u>35.3</u></u>	<u><u>[32.3]</u></u>

### Financial Year Ended 30 June 2009 Compared with the Financial Year Ended 30 June 2008

#### Turnover

The Group’s total turnover increased slightly by approximately RMB19.1 million, or approximately 3.2%, from approximately RMB600.9 million to approximately RMB620.0 million as a result of the growth of the Group’s operation and partly offset by the economic downturn of the PRC.

The percentage of the Group’s total turnover derived from sales of high precision industrial automation instrument and technology products increased from approximately 70.9% for the financial year ended 30 June 2008 to approximately 74.6%, while the percentage of the Group’s total turnover derived from sales of horological instruments decreased from approximately 29.1% for the financial year ended 30 June 2008 to approximately 25.4% for the financial year ended 30 June 2009.

[During the Track Record Period, the increase in the turnover from high precision industrial automation instrument and technology products was mainly due to the increase in sales of products with higher selling price. The Group increased its sales of [electromagnetic flow meters], which percentage accounted for total segment sales of the Group increased from approximately [1.9]% during the financial year ended 30 June 2008 to approximately [6.5]% during the financial

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year ended 30 June 2009, and increased its sales of paperless recorders, which increased its proportion to total segment sales of the Group from approximately [4.5]% during the financial year ended 30 June 2008 to approximately [6.3]% during the financial year ended 30 June 2009.

[During the Track Record Period, the decrease in turnover from horological instruments was mainly due to fierce market competition as well as the economic downturn which resulted in declining average selling price of the horological instruments.]

High precision industrial automation instrument and technology products on average also enjoy higher profit margins in comparison to horological instruments, the Group therefore increased resources and efforts toward the development of the high precision industrial automation instrument and technology product segment.

### ***Cost of sales***

From the financial year ended 30 June 2008 to the financial year ended 2009, the Group's cost of sales slightly increased by approximately RMB5.8 million, or approximately 1.8% from RMB317.9 million to approximately RMB323.8 million. During the year, the Group enjoyed stable direct material cost during the financial year ended 30 June 2009.

During the financial year ended 30 June 2009, the cost of sales maintained stable at approximately [52.2]% of the total turnover of the Group.

### ***Gross profit***

From the financial year ended 30 June 2008 to the financial year ended 30 June 2009, the Group's gross profit increased by approximately RMB13.3 million, or approximately [4.7]%, from approximately RMB283.0 million to approximately RMB296.2 million and the Group's gross profit margin increased from approximately [47.1]% to approximately [47.8]%. During the financial year ended 30 June 2009, the Group continued its cost control measures in order to maintain the Group's gross profit margin.

### ***Other revenue***

The Group's other revenue for the financial year ended 30 June 2009 was approximately RMB[1.4] million which represented bank interest income and remained stable when compared with that of 2008.

### ***Other expenses***

During the financial year ended 30 June 2008, the Group had commenced its contributions of housing fund and medical insurance since May 2008 and June 2008, respectively, and the Group continued to make contributions of housing fund and medical insurance during the financial year ended 30 June 2009. Therefore, the Group did not incur any late charges and penalties related to the non-contributions of housing fund and medical insurance during the financial year ended 30 June 2009, which were classified as other expenses in the financial year ended 30 June 2008.

### ***Other net (losses)/gain***

During the financial year ended 30 June 2009, the Group's other net gain was approximately RMB0.06 million which represented the exchange gain of the Group during the year.

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### ***Distribution costs***

During the financial year ended 30 June 2009, the Group’s distribution costs was approximately RMB3.8 million, which represented a decrease of approximately [3.5]%, as compared to approximately RMB4.0 million for the financial year ended 30 June 2008. It was mainly attributable to the decrease of the transportation cost and staff business trip expenses incurred during the financial year ended 30 June 2009.

### ***Administrative expenses***

During the financial year ended 30 June 2009, the Group’s administration expenses increased from approximately RMB[25.7] million for the financial year ended 30 June 2008 to approximately RMB[45.3] million for the financial year ended 30 June 2009, which represented an increase of approximately [76.6]%. The increase was mainly attributable to the fact that (i) the Group incurred full year office rental of approximately RMB[1.0] million in Hong Kong during the financial year ended 30 June 2009; and (ii) the increase in equity-settled share-based payment expenses of RMB17.8 million in relation to the Group’s Pre-IPO Share Option Scheme.

### ***Profit from operations***

Consequential to the factors discussed above, the Group’s profit from operations increased from approximately RMB241.9 million for the year ended 30 June 2008 to approximately RMB[248.6] million for the year ended 30 June 2009, which represented an increase of approximately [2.7]%. The Group’s operating margin (profit from operations expressed as a percentage of total turnover) decreased slightly by approximately [0.2]% from approximately 40.3% for the financial year ended 30 June 2008 to approximately [40.1]% for the financial year ended 30 June 2009.

### ***Finance costs***

During the financial year ended 30 June 2009, the Group incurred finance costs of approximately RMB[5.8] million, which represented an increase of approximately [96.8]% as compared with the same incurred during the financial year ended 30 June 2008. The increase was mainly attributable to the increase of the average outstanding balance of bank loan in the year ended 30 June 2009.

### ***Profit before taxation***

As a result of the factors discussed above, the Group’s profit before taxation increased by approximately [1.6]% from approximately RMB239.0 million for the financial year ended 30 June 2008 to approximately RMB242.8 million for the financial year ended 30 June 2009.

### ***Income tax***

During the financial year ended 30 June 2009, the Group’s income tax expenses was approximately RMB[42.8] million, which represented an increase of approximately [59.1]% from approximately RMB26.9 million for the year ended 30 June 2008. The increase was mainly attributable to the increase in applicable tax rate of Fujian Wide Plus from 9% in 2008 to 15% in 2009 and the full year impact of the deferred tax recognized on 5% of unremitted profits by Fujian

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Wide Plus to Wide Plus High Precision. Consequently, the effective tax rate of the Group increased from approximately 11.3% for the year ended 30 June 2008 to approximately 17.6% for the year ended 30 June 2009.

Please refer to the section headed “Business — Taxation — Income Tax” for details of the increase in applicable tax rates and refer to the section headed “Financial Information — Liquidity and Capital Resources — Deferred tax liabilities” for details of the withholding tax on unremitted profits from Fujian Wide Plus.

### ***Profit for the year***

As a result of the factors discussed above, the Group’s profit decreased by approximately [5.7]% from approximately RMB212.1 million to approximately RMB[200.0] million. The Group’s net profit margin decreased from approximately 35.3% for the financial year ended 30 June 2008 to approximately [32.3]% for the financial year ended 30 June 2009 which was in line with the business development of the Group during the financial year ended 30 June 2009.

### ***Dividend***

For the financial year ended 30 June 2009, the Group declared and paid a dividend of approximately RMB230.3 million.

## **Financial Year Ended 30 June 2008 Compared with the Financial Year Ended 30 June 2007**

### ***Turnover***

From the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s total turnover increased by approximately RMB121.6 million, or 25.4%, from approximately RMB479.3 million to approximately RMB600.9 million. [This increase was attributable to an increase of approximately RMB118.8 million in turnover from sales of high precision industrial automation instrument and technology products during the year, while turnover from sales of horological instruments slightly increased by approximately RMB2.9 million.]

[The percentage of the Group’s total turnover derived from sales of high precision industrial automation instrument and technology products increased from approximately 64.1% for the financial year ended 30 June 2007 to approximately 70.9% for the financial year ended 30 June 2008, while the percentage of the Group’s total turnover derived from sales of horological instruments [decreased from approximately 35.9% for the financial year ended 30 June 2007 to approximately 29.1% for the financial year ended 30 June 2008.]

### ***Cost of sales***

From the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s cost of sales increased by approximately RMB60.7 million, or approximately 23.6%, from approximately RMB257.2 million to approximately RMB317.9 million. [This increase was primarily attributable to an approximately RMB[53.3] million increase in direct materials costs relating to high precision industrial automation instrument and technology products, whose costs increased principally because of increase in unit sales.]

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[As a percentage of total turnover, cost of sales decreased slightly from approximately 53.7% for the financial year ended 30 June 2007 to approximately 52.9% for the financial year ended 30 June 2008.]

### **Gross profit**

From the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s gross profit increased by approximately RMB61.0 million, or approximately 27.5%, from approximately RMB222.0 million to approximately RMB283.0 million, and the Group’s gross profit margin increased from approximately 46.3% to approximately [47.1]%.

### **Other revenue**

The Group’s other income decreased from approximately RMB2.0 million for the financial year ended 30 June 2007 to approximately RMB1.4 million for the financial year ended 30 June 2008. [The decrease was mainly attributable to decrease in government grants received from approximately RMB511,000 for the financial year ended 30 June 2007 to approximately RMB6,000 for the financial year ended 30 June 2008.]

### **Other expenses**

[From the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s other expenses increased by approximately RMB3.9 million, or 67.2%, from approximately RMB5.8 million to approximately RMB9.7 million, primarily attributable to the increase of late charges and penalties related to the non-contributions of medical insurance and housing fund.]

### **Other net losses**

[The Group’s other net losses increased by approximately RMB3.0 million, from approximately RMB0.1 million to approximately RMB3.1 million, because of the increase of foreign currency exchange losses relating to appreciation of the Renminbi.]

### **Distribution costs**

[From the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s distribution costs increased by approximately RMB0.9 million, or 29.0%, from approximately RMB3.1 million to approximately RMB4.0 million, primarily because the increase in travelling and entertainment expenses.]

### **Administrative expenses**

[From the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s administrative expenses increased by approximately RMB12.9 million, or 100.8%, from approximately RMB12.8 million to approximately RMB25.7 million, because of increase in a number of expense categories, notably approximately RMB[4.4 million] increase in expenses relating to the new intermediate and ultimate holding companies, approximately RMB[1.0 million] increase in wages of the PRC staff, an increase of approximately RMB4.8 million in equity-settled share-based payment expenses, and an increase of approximately RMB1.6 million in R&D costs.]



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### ***Profit from operations***

[As a result of the factors discussed above, from the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s profit from operations increased by approximately RMB39.7 million, or approximately 19.6%, from approximately RMB202.2 million to approximately RMB241.9 million, however the Group’s operating margin (profit from operations expressed as a percentage of total turnover) slightly decreased from approximately 42.2% to approximately 40.3%.]

### ***Finance costs***

[From the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s finance costs increased by approximately RMB0.9 million, or approximately 45.0%, from approximately RMB2.0 million to approximately RMB2.9 million, because of increase in the average outstanding balance of bank borrowings wholly repayable within five years.]

### ***Profit before taxation***

As a result of the factors discussed above, from the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s profit before taxation increased by approximately RMB38.8 million, or approximately 19.4%, from approximately RMB200.2 million to approximately RMB239.0 million.

### ***Income tax***

From the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s income tax increased by approximately RMB11.3 million, or approximately 72.4%, from approximately RMB15.6 million to approximately RMB26.9 million.

[Effective tax rate for the Group increased from approximately 7.8% for the financial year ended 30 June 2007 to approximately 11.3% for the financial year ended 30 June 2008, the increase was mainly arisen from the increase in applicable tax rate of Fujian Wide Plus from 7.5% to 9% effective from 1 January 2008 and the deferred tax recognised on 5% of unremitted profits by Fujian Wide Plus to Wide Plus High Precision for the 6 months ended 30 June 2008.]

### ***Profit for the year***

[As a result of the factors discussed above, from the financial year ended 30 June 2007 to the financial year ended 30 June 2008, the Group’s profit increased by approximately RMB27.5 million, or 14.9%, from approximately RMB184.6 million to approximately RMB212.1 million, whereas the Group’s net profit margin decreased from approximately 38.5% to approximately 35.3% mainly because of the increase in administrative expenses.]

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### LIQUIDITY AND CAPITAL RESOURCES

#### Overview

The Group’s principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flow from operations, the issuance of new shares and debt financing from banks. The Group’s principal uses of cash have been, and are expected to continue to be, operational costs, payment for purchases of property, plant and equipment, and repayment of bank loans.

#### Liquidity Ratios and Other Key Financial Ratios

	Year ended 30 June		
	2007	2008	2009
Inventory turnover days <sup>(1)</sup>	45.2 days	36.3 days	[40.1]days
Trade receivables turnover days <sup>(2)</sup>	91.0 days	121.9 days	[153.3]days
Trade payables turnover days <sup>(3)</sup>	84.8 days	89.3 days	[126.9]days
Current ratio <sup>(4)</sup>	2.5	2.4	[1.9]
Gearing ratio <sup>(5)</sup>	10.2%	12.4%	[15.8]%

*Notes:*

1. Inventory turnover days is calculated based on the average inventory divided by the total purchases during the year and multiplied by the number of days during the year. Average inventory represents the average of beginning and ending inventory balances for the year.
2. Trade receivables turnover days is calculated based on the average gross trade receivables divided by the turnover during the year and multiplied by the number of days during the year. Average gross trade receivables represents the average of beginning and ending gross trade receivables for the year.
3. Trade payables turnover days is calculated based on the average trade payables divided by the total purchases during the year and multiplied by the number of days during the year. Average trade payables represents the average of beginning and ending trade payables for the year.
4. Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the year.
5. Gearing ratio is calculated based on the total debts divided by the total assets at the end of the year and multiplied by 100%. Total debts include payables incurred not in the ordinary course of business.

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### Net Current Assets

As at 30 June 2009, the Group had net current assets of approximately RMB[246.2] million. The Group’s current assets primarily comprised cash and cash equivalents of approximately RMB[203.5] million, and trade and other receivables of approximately RMB[289.9] million. The Group’s current liabilities mainly comprised short term bank loans of approximately RMB[79.0] million, and trade and other payables of approximately RMB[159.0] million.

As at 30 June 2008, the Group had net current assets of approximately RMB284.1 million. The Group’s current assets primarily comprised cash and cash equivalents of approximately RMB191.7 million, and trade and other receivables of approximately RMB264.0 million. The Group’s current liabilities mainly comprised short term bank loans of approximately RMB56.0 million, and trade and other payables of approximately RMB124.9 million.

As at 30 June 2007, the Group had net current assets of approximately RMB194.2 million. The Group’s current assets primarily comprised cash and cash equivalents of approximately RMB153.9 million, and trade and other receivables of approximately RMB141.9 million. The Group’s current liabilities mainly comprised short term bank loans of approximately RMB21.8 million, and trade and other payables of approximately RMB85.3 million.

Although the Group has historically been able to satisfy its working capital needs from cash flow from operations, its ability to complete the construction of its new factory and production facilities in Fuzhou may depend on its ability to finance these activities through the issuance of equity securities, long-term borrowings and the issuance of convertible bond and other debt securities. If adequate funds are not available, whether on satisfactory terms or at all, the Group may be forced to curtail its expansion plans. The Group’s ability to meet its working capital needs from cash flow from operations will be affected by the general growth of the broader Chinese economy, which in turn may be affected by several factors. Many of these factors are outside of its control, such as economic downturns or dramatic changes in consumer preferences for the products sold by the Group. To the extent that the Group does not generate sufficient cash flow from operations to meet its cash requirements, it may rely on external borrowings and securities offerings.

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[As at [30 June] 2009, being the date for preparation of the working capital sufficiency statement in this document, the Group had net current assets of approximately RMB[246.2] million, comprising current assets of approximately RMB[522.0] million and current liabilities of approximately RMB[275.8] million. [The Group’s inventories as at [30 June] 2009 was approximately RMB[28.6] million. Trade and other receivables was approximate RMB[289.9] million. Cash and cash equivalents was RMB[203.5] million as at 30 June 2009. The Group’s short term bank loans was approximately RMB[79.0] million as at 30 June 2009. The Group does not plan to secure additional bank loans after [30 June] 2009. Trade and other payables was approximate RMB[159.0] million as at 30 June 2009. The amount due to shareholder of the Company and a related party was approximately RMB[5.7] million and RMB[20.4] million, respectively as at [30 June] 2009 and it is expected to be fully repaid before the [●]. Other than the above, (i) the Directors consider that there are no material changes in the underlying drivers of the sources and uses of cash of the Group; (ii) the Directors do not aware that the Group has any events affecting the liquidity of the Group; and (iii) the Directors consider that, save as disclosed in the section headed “History and Development” in this document in relation of issue of the convertible bond to Standard Bank Asia Limited, based on the latest information, as at [30 June] 2009, the Group does not need to have further external debt financing. The following table sets out the composition of the unaudited current assets and liabilities as at [30 June] 2009:

	<i>RMB'000</i> <i>(unaudited)</i>
<b>Current assets</b>	
Inventories	[28,630]
Trade and other receivables	[289,875]
Cash and cash equivalents	<u>[203,474]</u>
	.....[521,979]
<b>Current liabilities</b>	
Bank loans	[78,997]
Trade and other payables	[159,011]
Amount due to shareholder of the Company	[5,731]
Amount due to a related party	[20,413]
Current taxation	[10,587]
Provision for warranty	<u>[1,055]</u>
	.....[275,794]
<b>Net current assets</b>	<u><u>[246,185]</u></u>

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### Cash Flows

	<b>Year ended 30th June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

#### **Selected Consolidated Cash Flow Statement Data**

Net cash generated from operating activities	184,104	136,781	[262,520]
Net cash used in investing activities	(17,048)	(30,029)	[(46,798)]
Net cash used in financing activities	(250,246)	(68,959)	[(203,949)]

#### ***Net cash generated from operating activities***

Cash generated from operating activities mainly represents receipt of cash from trade debtors for sales of products. Cash used in operating activities mainly represents payments to trade creditors for purchases of raw materials.

During the financial year ended 30 June 2009, the profit generated from the Group's ordinary activities before taxation increased to approximately RMB242.8 million, net cash generated from operating activities increased to approximately RMB262.5 million. This was mainly attributable to the increase of the credit terms granted by the Group's suppliers from 90 days to 120 days, being partly offset by the granting of longer credit period by the Group to its customers from 90 days to 120 days to from 120 days to 150 days as a result of economic downturn in the PRC.

For the financial year ended 30 June 2008, although profit before taxation increased from approximately RMB200.2 million for the financial year ended 30 June 2007 to approximately RMB239.0 million, net cash generated from operating activities decreased from approximately RMB184.1 million to approximately RMB136.8 million. The effect of increase in profit before taxation for the financial year ended 30 June 2008 was mainly offset by (i) increase in trade and other receivables of approximately RMB123.9 million; (ii) increase in inventories of approximately RMB10.8 million for the same year; and (iii) the increase in trade and other payables of approximately RMB36.4 million.

The increase in trade and other receivables was principally because the Group had lengthened the credit terms offered to selected distributors with good credit history and good sales growth track record to the maximum of 150 days in 2007. As the average credit terms granted were lengthened, settlements were correspondingly longer and hence slower in the year ended 30 June 2008 compared with prior years. Increase in inventories was mainly attributable to increase utilisation of production facilities and was in line with increase in sales. [The increase in trade and other payables was principally because of late charges and penalties relating to the late payment of medical insurance and housing fund increased.]

#### ***Net cash used in investing activities***

During the financial year ended 30 June 2009, the Group's net cash outflow from investing activities was approximately RMB[46.8] million, which was mainly attributable to the capital expenditure incurred by the Group for the construction of first phase of the New Factory for the expansion of the production capacity of existing products of the Group.

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[The Group’s net cash used in investing activities was approximately RMB30.0 million for the financial year ended 30 June 2008, which was principally due to payment for construction in progress in the financial year ended 30 June 2008 relating to construction of new manufacturing facilities.]

The Group’s net cash used in investing activities was approximately RMB17.0 million for the financial year ended 30 June 2007, which was primarily consist of payment for lease prepayment and purchase of property, plant and equipment.

### **Net cash generated from/used in financing activities**

During the financial year ended 30 June 2009, the Group’s net cash outflow from financing activities was approximately RMB[203.9] million, which was mainly attributable to the payment of approximately RMB230.3 million as dividend to the Shareholders.

The Group’s net cash used in financing activities was approximately RMB[69.0] million for the financial year ended 30 June 2008, which was mainly due to repayment of amount due to shareholders of the Company of approximately RMB[104.5 million], the payment was partially offset by the proceeds from new bank loans made. The Group’s net cash used in financing activities was approximately RMB250.2 million for the year ended 30 June 2007, which was mainly due to a payment of approximately RMB280.9 million dividend during that year.

### **Capital Expenditures**

Throughout the Track Record Period, the Group has made capital expenditures, typically in connection with the expansion of its production capacities. These capital expenditures amounted to approximately RMB38.0 million, RMB37.7 million and RMB[48.2] million as at 30 June 2007, 2008 and 2009, respectively.

	<b>As at 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
For high precision industrial automation instrument and technology products	13,139	33,270	[42,615]
For horological instruments	24,868	4,477	[5,619]
	<u>38,007</u>	<u>37,747</u>	<u>[48,234]</u>

### **Capital Commitments**

[Throughout the Track Record Period, the Group has made commitments to future capital expenditures. The commitments were related to the construction of the new factory. These commitments are enumerated in the following table:]

	<b>As at 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	—	46,842	[12,480]
Authorised but not contracted for	256,650	181,970	[184,127]
	<u>256,650</u>	<u>228,812</u>	<u>[196,607]</u>

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The capital commitment as at 30 June 2009 is financed by the Group’s internal resources and application of the net proceeds of the convertible bonds.

### Amounts due from Related Parties

	As at 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from related parties			
— Wide Plus Precision Instruments Company Limited (“Wide Plus”)	1,544	—	[—]
— Lucky Strong Technologies Limited (“Lucky Strong”)	<u>363</u>	<u>—</u>	<u>[—]</u>
	<u>1,907</u>	<u>—</u>	<u>[—]</u>

The amounts due from related parties consists of two parts, namely, amounts due from Wide Plus and amounts due from Lucky Strong.

[Amounts due from Wide Plus represented (i) the capital contributions from Wide Plus to Fujian Wide Plus in 2005; (ii) prepayment for purchase of property, plant and equipment amounted to approximately RMB4.9 million in the year ended 30 June 2005; and (iii) settlement of promotional expenses on the Group’s behalf amounted to approximately RMB0.2 million.]

The purchase arrangement was properly approved by the senior management of Fujian Wide Plus and was properly documented.

The purchase of property, plant and equipment by the related parties on the Group’s behalf will not be made after the [●] as this can be done by the Hong Kong subsidiary if the Group has such needs in the future.

The amounts due from Lucky Strong represented the prepayments made by the Group to the related parties for purchase of machineries, which has disclosed in the Accountants’ Report in Appendix I. The related parties are incorporated in Hong Kong. As the purchases can be made easier in Hong Kong than in the PRC, the Group had arranged with the two related parties for such purchases.

As advised by the Group’s PRC legal advisers, regarding the amounts due from Wide Plus and the amounts due from Lucky Strong, in view of the nature of the balances, they were not classified as advances to related parties and the Shareholders in the context of the PRC laws and regulations. Therefore, they are not required to comply with the relevant legal requirements of the PRC in the respect of advances to related parties and the Shareholders.

### Inventories

[The Group’s inventories stood at the level of approximately RMB28.6 million as at 30 June 2009. Such was mainly attributable to the fact that the Group maintained the level of raw materials and consumables at approximately RMB[19.9] million in order to match with the sales orders of the Group during the same period.]

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[The Group's inventories increased from approximately RMB22.5 million as at 30 June 2007 to approximately RMB33.4 million as at 30 June 2008, primarily because raw materials and consumables increased by approximately RMB6.8 million as at 30 June 2008 compared to 30 June 2007,] and the Group had to maintain a sufficient level of raw materials and consumables for manufacturing purpose. Subsequent usage/sales of inventories at 30 June 2009 amounted to approximately RMB[25.5] million up to [31 July] 2009 which represented [89.2]% of the year end balance.

	As at 30 June			Subsequent utilisation up to [31 July] 2009 RMB'000	Subsequent utilization Approximate %
	2007 RMB'000	2008 RMB'000	2009 RMB'000		
Raw materials and consumables	14,534	21,364	[19,932]	[16,829]	[84.4]
Work in progress	2,547	5,972	[2,969]	[2,969]	[100.0]
Finished goods	5,432	6,019	[5,729]	[5,729]	[100.0]
	<u>22,513</u>	<u>33,355</u>	<u>[28,630]</u>	<u>[25,527]</u>	<u>[89.2]</u>

	As at 30 June		
	2007 RMB'000	2008 RMB'000	2009 RMB'000
0 to 180 days	22,479	[29,689]	[28,621]
181 days to 365 days	32	3,666	[9]
Over 365 days	2	—	[—]
	<u>22,513</u>	<u>[33,355]</u>	<u>[28,630]</u>

The table below sets forth the Group's turnover of average inventory for the years indicated:

	Year ended 30 June		
	2007	2008	2009
Turnover of average inventory (days) (Note)	<u>45.2</u>	<u>36.3</u>	<u>[40.1]</u>

Note: Turnover of average inventory (days) equals average inventory divided by purchases and then multiplied by 365 for the each of three financial years ended 30 June 2009. Average inventory equals inventory at the beginning of the year plus inventory at the end of the year, divided by two.

Turnover of inventory as at 30 June 2007 was higher than the same as at 30 June 2008 because the Group had an unusually high balance of finished goods as at that date which was consequential to a dispute with a customer over price which had been settled during the financial year ended 30 June 2006. Therefore, the Group had to hold an inventory of finished goods for that customer longer than it normally would have.



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Turnover of inventory as at 30 June 2009 was considered to be stable because during the financial year ended 30 June 2009, the Group maintained a level of inventory in order to enable the Group to meet the sales orders of the Group’s products.

### Trade and Other Receivables

The Group’s trade and other receivables increased from approximately RMB264.0 million as at 30 June 2008 to approximately RMB[289.9] million as at 30 June 2009 which was mainly attributable to the fact that during the financial year ended 30 June 2009, as a result of the economic downturn of the PRC, the Group had extended the credit terms offered to selected distributors with good credit history and good sales track record from 90 days to 120 days to 120 days to 150 days. As a result, the settlements of the trade debtors took longer time when compared with the same period ended 30 June 2008.

The Group’s trade and other receivables increased from approximately RMB141.9 million as at 30 June 2007 to approximately RMB264.0 million as at 30 June 2008, primarily because the value of those due more than three months but less than 1 year increased by approximately RMB[71.3 million] as at 30 June 2008 when compared to 30 June 2007, and the Group had lengthened the credit terms offered to selected distributors with good credit history and good sales growth track record to the maximum of 150 days in 2007. As the average credit terms granted were lengthened, settlements were correspondingly longer and hence slower in the year ended 30 June 2008 compared with prior years.

The Group’s credit risk is primarily attributable to trade and other receivables. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. As at [31 July] 2009, approximately RMB[56.1] million or approximately [21.5]% of the outstanding balance of trade receivable as at 30 June 2009 is subsequently settled. Remaining trade debtors of approximately RMB[201.9] million are expected to be settled within the year of 2009.

An ageing analysis of trade receivables (net of allowance for doubtful debts) as of the balance sheet date is as follows:

	<b>As at 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	127,119	[172,532]	[184,616]
More than 3 months but less than 1 year	11,511	[82,856]	[71,046]
1 year to 2 years	—	[—]	[2,344]
	<u>138,630</u>	<u>[255,388]</u>	<u>[258,006]</u>

The table below sets forth the Group’s turnover of average trade receivables for the years indicated:

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Turnover of average trade receivables (days)	91.0	121.9	[153.3]
(Note)	<u>91.0</u>	<u>121.9</u>	<u>[153.3]</u>

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*Note:* Turnover of average trade receivables (days) equals average gross trade receivables divided by sales and then multiplied by 365 for the each of three financial years ended 30 June 2009. Average trade receivables equals gross trade receivables at the beginning of the year plus gross trade receivables at the end of the year, divided by two.

In 2007, the Group had lengthened the credit terms offered to selected distributors with good credit history and good sales growth track record to the maximum of 150 days. As the average credit terms granted were lengthened, settlements were correspondingly longer and hence slower in the year ended 30 June 2007 compared with prior years. All trade receivables have been subsequently settled and hence there has been no deterioration of the credit quality of the receivables. Nevertheless, the debtors’ turnover days are still within the credit periods granted to the customers by the Group, i.e. 90–150 days.

[Turnover of trade receivables for the financial year ended 30 June 2008 increased because the settlement of the customers slowed down as [the Group had lengthened the credit terms offered to selected distributors with good credit history and good sales growth track record to the maximum of 150 days in 2007. As the average credit terms granted were lengthened, settlements were correspondingly longer and hence slower in the year ended 30 June 2008 compared with prior years].

[Turnover of trade receivables for the financial year ended 30 June 2009 increased because the settlement of the customers slowed down as [the Group had lengthened the credit terms offered to selected distributors with good credit history and good sales growth track record from 120 days to the maximum of 150 days in 2008. As the average credit terms granted were lengthened, settlements were correspondingly longer and hence slower in the year ended 30 June 2009 compared with prior years].

Despite the increase of the year-to-year turnover of trade receivables over the Track Record Period, no deterioration in the quality of the receivables or credit-worthiness of debtors was noted because (i) except for few number of customers with full provision for impairment of bad and doubtful debts of approximately RMB3.7 million made for the financial year ended 30 June 2007, all customers have no bad debt history; (ii) the turnover days were within the credit period granted (i.e. 120–150 days); and (iii) approximately RMB[56.1] million i.e. [21.5]% of the trade receivables as at 30 June 2009 was subsequently settled as at [31 July] 2009 that was also broadly in line with the credit period granted.]

### Trade and Other Payables and Deferred Tax Assets

The Group’s trade and other payables increased from approximately RMB124.9 million as at 30 June 2008 to approximately RMB159.0 million as at 30 June 2009, mainly due to the fact that the Group has obtained extended credit period from its major suppliers from 90 days to 120 days due to the economic downturn in the PRC during the financial year ended 30 June 2009.

[The Group’s trade and other payables increased from approximately RMB85.3 million as at 30 June 2007 to approximately RMB124.9 million as at 30 June 2008, primarily because (i) the balance of trade payables due within three months increased by approximately RMB18.7 million as at 30 June 2008 when compared to 30 June 2007, which was broadly in line with the increase in turnover (and thus production) between these years; and (ii) the increase in provision for medical insurance and housing fund and related late charges of approximately RMB14.1 million.

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The Group’s provision for medical insurance and housing fund as at 30 June 2007, 2008 and 2009 were approximately RMB8.5 million, RMB12.9 million and RMB[12.9] million, respectively, which represented one of the reasons for the continued increase in the balance of trade and other payables during the Track Record Period. Furthermore, since the provision will be tax deductible on future settlements to the relevant medical insurance and housing fund management centres, deferred tax assets arising from such provisions were recognised in the balance sheets with applicable tax rates of 7.5%, 9.0% and [15]% as at 30 June 2007, 2008 and 2009, respectively. As the provisions increased, which was in line with the increase in salaries for more workers employed, during the Track Record Period, deferred tax assets for the Group increased from RMB[0.8] million as at 30 June 2007 to approximately RMB2.7 million as at 30 June 2009. As a result of the impact of the new CIT Law as discussed in Appendix I Section C note 6(a)(iv) to this document, deferred tax assets of the Group increased from approximately RMB0.8 million as at 30 June 2007 to approximately RMB1.6 million as at 30 June 2008 to adjust the balance using applicable tax rate of 9%.

	As at 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	56,770	80,756	[115,280]
Retirement benefit contributions, fines and late charges payable	17,711	31,850	31,850
Other payables and accruals	<u>10,780</u>	<u>12,320</u>	<u>11,881</u>
	<u>85,261</u>	<u>124,926</u>	<u>[159,011]</u>

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date. The credit periods granted by various suppliers generally range from 90 days to 120 days.

	As at 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due within 3 months	56,352	75,072	[91,581]
Due after 3 months but within 6 months	130	5,168	[23,699]
Due after 6 months but within 1 year	285	300	[—]
Due after 1 year but within 2 years	<u>3</u>	<u>216</u>	<u>[—]</u>
	<u>56,770</u>	<u>80,756</u>	<u>[115,280]</u>

The table below sets forth the Group’s turnover of average trade payables for the years indicated:

	Year ended 30 June		
	2007	2008	2009
Turnover of average trade payables (days) (Note)	<u>84.8</u>	<u>89.3</u>	<u>[126.9]</u>

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## FINANCIAL INFORMATION

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*Note:* Turnover of average trade payables (days) equals average trade payables divided by purchases and then multiplied by 365 for the each of three financial years ended 30 June 2009. Average trade payables equal trade payable at the beginning of the year plus trade payable at the end of the year, divided by two.

As a result of the Group has obtained extension of credit period from its major suppliers from 90 days to 120 days due to the economic downtown in the PRC during the financial year ended 30 June 2009, the turnover of trade payables for the financial year ended 30 June 2009 increased accordingly.

### Bank Borrowings and Gearing Ratios

The following table sets out an analysis of the Group’s bank borrowings during the Track Record Period:

	<b>As at 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	21,808	56,024	[78,997]
After 1 year but within 2 years	3,808	—	[—]
	<u>3,808</u>	<u>—</u>	<u>[—]</u>
	<u>25,616</u>	<u>56,024</u>	<u>[78,997]</u>

Bank borrowings increased to approximately RMB56.0 million as at 30 June 2008 from approximately RMB 25.6 million as at 30 June 2007 because new loans were raised by the Group for working capital during the year.

The Group’s bank borrowings increased to approximately RMB79.0 million as at 30 June 2009 because the Group raised new loans for financing the Group’s working capital.

[The gearing ratio was maintained at below 16% during the Track Record Period, the relatively steady gearing ratios represented the relative increase in total assets and bank borrowings during the years to enable the Group making use of the borrowings for expansion.]

As a result of the new loans raised by the Group during the financial year ended 30 June 2009, the gearing ratio increased to approximately [15.8]%.

### Deferred Tax Liabilities

The Group’s deferred tax liabilities as at 30 June 2009 mainly arose from the temporary differences relating to unremitted profits for Fujian Wide Plus of the Group for the year ended 30 June 2009.

Under the new CIT Law, payments of dividends from a PRC enterprise to overseas shareholders in respect of profits earned from 2008 onwards is subject to withholding tax at 10% of the dividends paid. For Hong Kong companies that invested in the PRC, the applicable dividend withholding tax rate would be determined under the PRC/Hong Kong Double Tax Arrangement

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(“the PRC/HK DTA”). Under the PRC/HK DTA, the withholding tax rate would be reduced to 5%, provided that the Hong Kong company holds at least 25% of the capital of the PRC enterprise and is the beneficial owner of the dividends.

Since Fujian Wide Plus is wholly owned by the Group’s Hong Kong subsidiary, Wide Plus High Precision, any post-2008 dividends paid by Fujian Wide Plus will be subject to withholding tax at 5%. Accordingly, 5% of the unremitted profits from Fujian Wide Plus is recognised as deferred tax liabilities commencing from 1 January 2008.

### **Market Risks**

#### ***Interest rate risk***

The Group is exposed to limited interest rate risk, as its outstanding bank loans have floating interest rates. The secured bank loan, with a balance of RMB[5,997,000] million as at 30 June 2009, bears interest at a rate of 3 month HIBOR which ranged from [0.36]% per annum to [3.66]% per annum. But this exposure is limited because these balances are relatively small, compared, for example, to the balance of cash and cash equivalents as at 30 June 2009 of approximately RMB[203.5] million.

#### ***Foreign currency exchange rate risk***

The Group is subject to limited foreign currency exchange risk, which it does not currently hedge, because over the Track Record Period the Group’s turnover, costs of sales and operating expenses have, to a limited degree, been denominated in certain different currencies.

During the Track Record Period, 86.7%, 86.5% and [89.9]% of the Group’s turnover was derived from sales in the PRC (other than Hong Kong) denominated in Renminbi, respectively while the remainder was derived from sales in Hong Kong denominated in Hong Kong dollars and US dollars. The Group does, however, have certain other costs and expenses relating to its business denominated in other currencies, including imported machinery. As a result, over the Track Record Period the Group has realized relatively small losses related to foreign currency fluctuations. For each of the two financial years ended 30 June 2008, the Group recorded a loss of approximately RMB0.1 million and RMB3.1 million, respectively. For the financial year ended 30 June 2009, the Group recorded a gain of approximately RMB63,000.

#### ***Off-balance sheet arrangements***

[As of the [Latest Practicable Date], the Group has not entered into any off-balance sheet transactions.]

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**FINANCIAL INFORMATION**

**PROPERTY INTERESTS**

Details relating to the Group’s property interests are set out in Appendix IV to this document. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the properties owned and leased by the Group as at [31 July] 2009. The text of its letter, summary of values and valuation certificates are set out in Appendix IV to this document.

The table below shows the reconciliation of aggregate amounts of land and buildings under construction from the Group’s audited consolidated financial statements as at 30 June 2009 to the unaudited net book value of the Group’s property interests as at [31 July] 2009:

	<i>RMB’000</i>
Valuation of properties interests as at [31 July] 2009 as set out in the property valuation report in Appendix IV to this document	<u>[86,840]</u>
Buildings under construction as at 30 June 2009	[71,043]
Prepaid land lease payments as at 30 June 2009	[10,656]
Add:	
Additions to buildings under construction during the [one] month ended [31 July] 2009	<u>—</u>
Cost of land and buildings under construction as at [31 July] 2009	<u>81,699</u>
Revaluation surplus, before income taxes	<u><u>5,141</u></u>

**PROFIT FORECAST FOR THE [SIX] MONTHS PERIOD ENDING [31 DECEMBER 2009]**

The following sets forth certain forecast data for our Company for the [six] months ending 31 December 2009, which should be read in conjunction with Appendices [●] and III to this document:

Forecast consolidated profit attributable to the equity holders of the Company for the six months period ending 31 December 2009 . . . . .	not less than RMB[●] million (approximately HK\$[●] million)
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*Note:* The profit forecast has been prepared on the bases and assumptions set out in Appendix III to this document.

There can be no assurance that such forecast will ultimately be realized, or if not realized, that the failure to realize such results will not have a material and adverse impact on the financial condition or the Group’s results of operations.

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## FINANCIAL INFORMATION

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### DIVIDENDS AND DISTRIBUTABLE RESERVES

#### Dividends

During the Track Record Period, the Group declared dividend of approximately RMB280.9 million, nil and RMB230.3 million, respectively. Such dividends were paid in cash and out of the distributable profits of the Company. The Directors consider that the dividend payments made during the Track Record Period are not indicative of future dividend policy of the Group.

Regarding dividends to be declared in the future, the Directors are of the opinion that the amount of dividends will depend on, among other things, the Group’s results of operations, general financial condition and cash flows, operating and capital requirements, the amount of distributable profits based on the generally accepted accounting principles in Hong Kong, the applicable PRC laws and regulations in respect of repatriation and withholding tax of dividends and distributions, the other applicable laws and regulations and other factors that the Directors deem relevant. Investors could consider the risks affecting the Group contained in the section headed “Risk factors” in this document.

Subject to the factors above, the Directors intend to declare and recommend dividends which would amount in total to not less than [●]% of the net profit if any, from ordinary activities attributable to shareholders of the Group beginning the year ending 30 June [2010] (as determined in accordance with HKFRS). Such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividend in such manner or declare and pay any dividend at all.

#### Distributable Reserves

The aggregate amount of reserves available for distribution to equity shareholders of the Group as at 30 June 2009 was approximately RMB[265,613,000]. The aggregate amounts of distributable reserves as at 30 June 2007 and 2008 of the companies comprising the Group were approximately [RMB83,910,000] and RMB[295,982,000], respectively.

### WORKING CAPITAL

The Directors are of the opinion that, taking into account the present available banking facilities and internal resources of the Group and the estimated net proceeds of the [●], the Group has sufficient working capital for its requirements in the next 12 months commencing from the date of this document.

### [NO MATERIAL ADVERSE CHANGES

The Directors have confirmed that after taking into account of the fact that there are significant adverse changes in the global and the PRC economies and [the matters disclosed in the section headed “Subsequent Events” in the Accountants’ Report as Appendix I to this document and the developments in 2009 disclosed in the section headed “History and Development”], there has been no material adverse change in the Group’s financial or trading positions since 30 June 2009 (the date on which the Group’s latest consolidated financial results were prepared, as set forth in the Accountants’ Report which is included as Appendix I to this document).]

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**APPENDIX I****ACCOUNTANTS’ REPORT**

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*The following is the text of a report, prepared for the purpose of incorporation in this document, received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.*



8th Floor  
Prince’s Building  
10 Chater Road  
Central  
Hong Kong

[Date]

The Board of Directors  
**China High Precision Automation Group Limited**  
**Sun Hung Kai International Limited**

Dear Sirs,

**INTRODUCTION**

We set out below our report on the financial information relating to China High Precision Automation Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), including the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for each of the years ended 30 June 2007, 2008 and 2009 (the “Relevant Period”), the consolidated balance sheets of the Group as at 30 June 2007, 2008 and 2009, and of the Company as at 30 June 2008 and 2009, together with the notes thereto (the “Financial Information”), for inclusion in the document of the Company dated [date] (the “Document”).

The Company was incorporated in the Cayman Islands on 29 November 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the group’s Reorganisation completed on 3 April 2008 (the “Reorganisation”), as detailed in the section headed “History and Development — Reorganisation” in the Document, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and Wide Plus High Precision Automation Limited, as they are investment holding companies and have not carried on any business since their respective dates of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of establishment/incorporation to 30 June 2009 for the purpose of this report.



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## APPENDIX I

## ACCOUNTANTS’ REPORT

The statutory financial statements for Fujian Wide Plus Precision Instruments Co., Ltd. which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People’s Republic of China (the “PRC”), were audited during the Relevant Period by the statutory auditor as indicated below:

<b>Name of company (Note)</b>	<b>Financial period</b>	<b>Statutory auditor (Note)</b>
Fujian Wide Plus Precision Instruments Co., Ltd. (福建上潤精密儀器有限公司)	Years ended 31 December 2006, 2007 and 2008	Fujian Baihong Associated Certified Public Accountant Firm 福建百鴻聯合會計師事務所 (formerly known as Xiamen Lingzhi Associated Certified Public Accountant Firm 廈門凌志聯合會計師事務所)

*Note:* The English translation of the names is for reference only. The official names of these entities are in Chinese.

### BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. In addition, adjustments have been made, for the purpose of this report, to restate these financial statements to conform with Hong Kong Financial Reporting Standards (“HKFRSs”) promulgated by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). HKFRSs include Hong Kong Accounting Standards and Interpretations.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

### BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline “Documentes and the Reporting Accountant” (Statement 3.340) issued by the

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**APPENDIX I****ACCOUNTANTS’ REPORT**

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HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant consider internal control relevant to the entity’s preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 30 June 2009.

**OPINION**

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group’s consolidated results and cash flows for the Relevant Period, the state of affairs of the Group as at 30 June 2007, 2008 and 2009 and of the Company as at 30 June 2008 and 2009.

**A BASIS OF PRESENTATION**

On 3 April 2008, the Group completed the reorganisation (“the Reorganisation”) in preparation for the listing of the Company’s shares on the Stock Exchange of Hong Kong Limited. Pursuant to the Reorganisation, Wide Plus High Precision Automation Limited (“Wide Plus High Precision”) acquired the entire equity interest in Fujian Wide Plus Precision Instruments Co., Ltd. (“Fujian Wide Plus”) from Wide Plus Precision Instruments Company Limited (“Wide Plus”) and the Company acquired the entire equity interest in Wide Plus High Precision by issuance of the Company’s ordinary shares.

The companies that took part in the Reorganisation now comprising the Group were controlled by the same group of ultimate equity holders, before and after the Reorganisation. The control is not transitory and consequently, there was a continuation of risks and benefits to the group of ultimate equity holders and therefore the Reorganisation is considered as a business combination under common control and Accounting Guideline “Merger Accounting for Common Control Combinations” has been applied. The Financial Information has been prepared using the merger basis of accounting as if the Group had always been in existence at the beginning of the Relevant Period. The net assets of the combining companies are consolidated using their existing book values from the group of ultimate equity holders’ perspective. The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group as set out in Section B include the results of operations of the companies comprising

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the Group for the Relevant Period (or where the companies were incorporated at a date later than 1 July 2006, for the period from their respective dates of incorporation to 30 June 2009) as if the current group structure had been in existence throughout the Relevant Period. The consolidated balance sheets of the Group as at 30 June 2007, 2008 and 2009 as set out in Section B have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated upon consolidation.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Wide Plus High Precision Automation Limited (“Wide Plus High Precision”)	Hong Kong 11 December 2007	HKD10,000/ HKD10,000	100%	—	Investment Holding
Fujian Wide Plus Precision Instruments Co., Ltd. (“Fujian Wide Plus” or the “PRC subsidiary”) *	The PRC 13 January 2003	USD20,000,000/ USD20,000,000	—	100%	Manufacture and sale of high precision industrial automation instrument and technology products (“automation instrument and technology products”) and multi-functional all-plastic quartz watch movements (“horological instruments”)

\* This entity is a wholly foreign owned enterprise.

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### B FINANCIAL INFORMATION

#### 1 Consolidated income statements

	Section C Note	Years ended 30 June		
		2007 RMB'000	2008 RMB'000	2009 RMB'000
<b>Turnover</b>	2	479,251	600,904	620,003
Cost of sales		<u>(257,209)</u>	<u>(317,930)</u>	<u>(323,762)</u>
<b>Gross profit</b>		222,042	282,974	296,241
Other revenue	3	1,950	1,425	1,436
Other expenses	3	(5,780)	(9,702)	—
Other net (losses)/gain	4	(110)	(3,112)	63
Distribution costs		(3,075)	(3,972)	(3,833)
Administrative expenses		<u>(12,778)</u>	<u>(25,681)</u>	<u>(45,341)</u>
<b>Profit from operations</b>		202,249	241,932	248,566
Finance costs	5(a)	<u>(2,030)</u>	<u>(2,935)</u>	<u>(5,775)</u>
<b>Profit before taxation</b>	5	200,219	238,997	242,791
Income tax	6(a)	<u>(15,574)</u>	<u>(26,925)</u>	<u>(42,834)</u>
<b>Profit for the year</b>		<u>184,645</u>	<u>212,072</u>	<u>199,957</u>
Dividend declared and paid during the year	9	<u>280,864</u>	<u>—</u>	<u>230,326</u>
Earnings per share (cents)	10			
— basic		24.62	28.28	26.66
— diluted		<u>24.62</u>	<u>28.15</u>	<u>26.66</u>

The accompanying notes form part of the Financial Information.

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### 2 Consolidated balance sheets

		As at 30 June		
	Section C Note	2007 RMB'000	2008 RMB'000	2009 RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	11	55,814	56,133	57,256
Construction in progress	12	650	31,354	71,043
Lease prepayments	13	10,656	10,656	10,656
Deferred tax assets	20(b)	750	1,569	2,676
		<u>67,870</u>	<u>99,712</u>	<u>141,631</u>
<b>Current assets</b>				
Inventories	14	22,513	33,355	28,630
Trade and other receivables	15	141,932	263,973	289,875
Amounts due from related parties	19	1,907	—	—
Cash and cash equivalents	16	153,908	191,701	203,474
		<u>320,260</u>	<u>489,029</u>	<u>521,979</u>
<b>Current liabilities</b>				
Bank loans	17	21,808	56,024	78,997
Trade and other payables	18	85,261	124,926	159,011
Amounts due to shareholders of the Company	19	9,795	4,836	5,731
Amounts due to related parties	19	4,200	12,098	20,413
Current taxation	20(a)	4,634	6,378	10,587
Provision for warranty	21	355	645	1,055
		<u>126,053</u>	<u>204,907</u>	<u>275,794</u>
<b>Net current assets</b>		<u>194,207</u>	<u>284,122</u>	<u>246,185</u>
<b>Total assets less current liabilities</b>		<u>262,077</u>	<u>383,834</u>	<u>387,816</u>
<b>Non-current liabilities</b>				
Bank loans	17	3,808	—	—
Deferred tax liabilities	20(b)	—	5,767	17,785
		<u>3,808</u>	<u>5,767</u>	<u>17,785</u>
<b>NET ASSETS</b>		<u>258,269</u>	<u>378,067</u>	<u>370,031</u>
<b>Capital and reserves</b>				
Share capital	23	104,143	342	342
Reserves	24	154,126	377,725	369,689
<b>TOTAL EQUITY</b>		<u>258,269</u>	<u>378,067</u>	<u>370,031</u>

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### 3 Consolidated statements of changes in equity

Section C Note	Attributable to equity shareholders of the Company							Total equity RMB'000
	Share capital RMB'000 (Note 23)	Surplus reserves RMB'000 (Note 24(a))	Share-based compensation reserve RMB'000 (Note 24(b))	Other reserve RMB'000	Exchange reserve RMB'000 (Note 24(c))	Retained profits RMB'000 (Note 24(d))		
At 1 July 2006	54,032	36,176	—	—	—	214,169	304,377	
Capital injection from the holding company prior to the Reorganisation (Note (i))	50,111	—	—	—	—	—	50,111	
Net profit for the year	—	—	—	—	—	184,645	184,645	
Appropriation to reserve fund	—	34,040	—	—	—	(34,040)	—	
Dividend declared and paid	—	—	—	—	—	(280,864)	(280,864)	
At 30 June 2007	104,143	70,216	—	—	—	83,910	258,269	
Exchange differences on translation of financial statements of operations outside the PRC (excluding Hong Kong)	—	—	—	—	3,785	—	3,785	
Issuance of shares	351	—	—	—	—	—	351	
Arising on Reorganisation (Note (ii))	(104,152)	—	—	2,982	—	—	(101,170)	
Equity settled share-based payments	22	—	4,760	—	—	—	4,760	
Net profit for the year	—	—	—	—	—	212,072	212,072	
At 30 June 2008	342	70,216	4,760	2,982	3,785	295,982	378,067	
Exchange differences on translation of financial statements of operations outside the PRC	—	—	—	—	(272)	—	(272)	
Equity settled share-based payments	22	—	22,605	—	—	—	22,605	
Net profit for the year	—	—	—	—	—	199,957	199,957	
Dividend declared and paid	—	—	—	—	—	(230,326)	(230,326)	
At 30 June 2009	342	70,216	27,365	2,982	3,513	265,613	370,031	

Notes:

- (i) Prior to the Reorganisation, the PRC subsidiary was wholly owned by Wide Plus Precision Instruments Company Limited (“Wide Plus”) from 15 November 2004 to 28 February 2008. Wide Plus was controlled by the controlling shareholder of the Company during the Relevant Period. Capital injections were made to the PRC subsidiary by way of cash and property, plant and equipment by Wide Plus during the Relevant Period.
- (ii) On 29 February 2008, Wide Plus High Precision acquired the entire paid-in capital of Fujian Wide Plus from Wide Plus by assuming a debt of HKD110,375,000 (equivalent to RMB100,828,000) owed by Wide Plus to Mr. Wong Fun Chung, the controlling shareholder of the Company. The difference between the consideration and the paid-in capital of Fujian Wide Plus of RMB104,143,000 was treated as an equity movement and recorded in “Other reserve”. On the same date, Wide Plus High Precision became the holding company of Fujian Wide Plus.

On 3 April 2008, the Company acquired the entire share capital of Wide Plus High Precision by issue and allotment of 3,799,999 shares of HKD0.1 each (equivalent to RMB342,000). The difference between the nominal value of entire share capital of Wide Plus High Precision of HKD10,000 (equivalent to RMB9,000) and the nominal value of the 3,799,999 shares issued and allotted by the Company was treated as an equity movement and recorded in “Other reserve”. On the same date, the Company became the holding company of Wide Plus High Precision.

The accompanying notes form part of the Financial Information.

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### 4 Consolidated cash flow statements

	Section C Note	Years ended 30 June		
		2007 RMB'000	2008 RMB'000	2009 RMB'000
<b>Operating activities</b>				
Profit before taxation		200,219	238,997	242,791
Adjustments for:				
— Depreciation	5(c)	5,582	6,724	7,424
— Finance costs	5(a)	2,030	2,935	5,775
— Interest income	3	(1,439)	(1,419)	(1,436)
— Equity-settled share based payment expenses	5(b)	—	4,760	22,605
— Unrealised exchange differences		(383)	3,078	(261)
<b>Operating profit before changes in working capital</b>		206,009	255,075	276,898
Decrease/(increase) in inventories		7,446	(10,842)	4,725
Increase in trade and other receivables		(42,209)	(123,935)	(25,882)
Increase in trade and other payables		27,436	36,426	34,083
Increase in provision for warranty		243	290	410
<b>Cash generated from operations</b>		198,925	157,014	290,234
PRC income tax paid		(14,821)	(20,233)	(27,714)
<b>Net cash generated from operating activities</b>		184,104	136,781	262,520
<b>Investing activities</b>				
Payment for the purchase of property, plant and equipment		(7,433)	(3,066)	(7,570)
Payment for construction in progress		(465)	(30,289)	(40,664)
Payment for lease prepayments		(10,656)	—	—
Decrease in amounts due from related parties		67	1,907	—
Interest received		1,439	1,419	1,436
<b>Net cash used in investing activities</b>		(17,048)	(30,029)	(46,798)

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	Section C Note	Years ended 30 June		
		2007 RMB'000	2008 RMB'000	2009 RMB'000
<b>Financing activities</b>				
Capital injected from the holding company prior to the Reorganisation		37,396	—	—
Proceeds from bank loans		29,000	72,226	140,605
Repayment of bank loans		(36,278)	(41,616)	(117,632)
Interest paid		(2,030)	(2,935)	(5,775)
Increase/(decrease) in amounts due to shareholders of the Company		530	(5,029)	894
Proceeds from issue of shares		—	9	—
Increase in amounts due to related parties		2,000	7,898	8,285
Payment pursuant to the Reorganisation (note(i))		—	(99,512)	—
Dividend paid		(280,864)	—	(230,326)
<b>Net cash used in financing activities</b>		<u>(250,246)</u>	<u>(68,959)</u>	<u>(203,949)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(83,190)	37,793	11,773
<b>Cash and cash equivalents at beginning of the year</b>		<u>237,098</u>	<u>153,908</u>	<u>191,701</u>
<b>Cash and cash equivalents at end of the year</b>	16	<u><u>153,908</u></u>	<u><u>191,701</u></u>	<u><u>203,474</u></u>

*Major non-cash transaction:*

During the year ended 30 June 2007, capital amounting to RMB12,715,000 was injected in the form of property, plant and equipment to the PRC subsidiary of the Group.

*Note:*

- (i) Pursuant to the Reorganisation, Wide Plus High Precision acquired the equity interest in Fujian Wide Plus from Wide Plus by way of assuming a debt of HKD110,375,000 owed by Wide Plus to Mr. Wong Fun Chung, the controlling shareholder of the Company. The debt was fully settled by cash on 31 March 2008.

*The accompanying notes form part of the Financial Information.*



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### C NOTES TO THE FINANCIAL INFORMATION

#### 1 SIGNIFICANT ACCOUNTING POLICIES

##### (a) Statement of compliance

The Financial Information sets out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong. Further details of the significant accounting policies adopted by the Group is set out in the remainder of this Section C.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 30 June 2009. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 July 2008 are set out in note 30.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group did not prepare consolidated financial statements previously. This is the Group’s first HKFRS Financial Information and HKFRS 1 has been applied.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

##### (b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries, and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

The Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand. The functional currency of the Company and its subsidiary in Hong Kong is Hong Kong dollars, and the functional currency of the Company’s subsidiary in Fujian, the PRC is RMB.

The measurement basis in the preparation of the Financial Information is the historical cost basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

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**(c) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

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

In the company’s balance sheet, an investment in a subsidiary is stated at cost less impairment losses (note 1(h)(ii)).

**(d) Lease prepayments**

Lease prepayments represent payments made to acquire leasehold land. Leasehold land is carried at cost less accumulated amortisation and impairment losses (see note 1(h)). Amortisation is charged to the consolidated income statement on a straight-line basis over the lease term.

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

Property, plant and equipment are stated in the consolidated balance sheets at cost less accumulated depreciation and impairment losses (see note 1(h)).

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Machinery and equipment	10 years
— Leasehold improvements	Over the shorter of 5 years and the lease term
— Motor vehicles	10 years
— Furniture and fixtures	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(f) Construction in progress**

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(h)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

**(g) Operating lease charges**

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

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### (h) Impairment of assets

#### (i) *Impairment of trade and other receivables*

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at cost or amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset’s carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### (ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- construction in progress; and
- investment in subsidiary.

If any such indication exists, the asset’s recoverable amount is estimated.

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— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**(i) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(j) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(h)).

**(k) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

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### (l) Trade and other payables

Trade and other payables, including amounts due to related parties, are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (n) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to mandatory provident fund in Hong Kong and appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.
- (iii) The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at the grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting dates, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to the retained profits).

If the grant of share options is cancelled or settled during the vesting period (other than grant cancelled by forfeiture when the vesting conditions are not satisfied), the cancellation or settlement is accounted for as an acceleration of vesting and the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately in profit or loss.

### (o) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the combined income statements except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable provided that they are not part of a business combination, and temporary differences relating to investment in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reverse and it is probable that the differences are not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
  - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(p) Provisions and contingent liabilities**

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

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

### **(q) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *(i) Sale of goods*

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

#### *(ii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

#### *(iii) Government grants*

Unconditional government grants that compensate the Group for expenses incurred are recognised in profit or loss as revenue when the grants become receivable.

### **(r) Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC (excluding Hong Kong) are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside the PRC (excluding Hong Kong), the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### **(s) Research and development costs**

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

### **(t) Borrowing costs**

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

### **(u) Repair and maintenance expenditure**

Repair and maintenance expenditure is expensed as incurred.

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### (v) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group’s parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (w) Segment reporting

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

In accordance with the Group’s internal financial reporting system, the Group has chosen business segment information as the primary format and geographical segment information as the secondary reporting format for the purposes of this Financial Information.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

## 2 TURNOVER AND SEGMENT REPORTING

The principal activities of the Company is investment holding. The principal activities of the subsidiaries are set out in Section A of this report.



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Turnover represents the sales value of goods sold less returns, discounts, value added taxes and other sales taxes, which is analysed as follows:

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Sales of automation instrument and technology products	307,351	426,115	462,425
Sales of horological instruments	<u>171,900</u>	<u>174,789</u>	<u>157,578</u>
	<u>479,251</u>	<u>600,904</u>	<u>620,003</u>

Segment information is presented in respect of the Group's business and geographical segments. Business segments information is chosen as the primary reporting format as the Group's risks and rates of return are affected predominantly by differences in the products it produces.

### Business segments

The Group comprises the following main business segments:

<i>Automation instrument and technology products:</i>	the manufacture and trading of intelligent display instruments, flow accumulate instruments, pressure transmitters and logging control instruments.
<i>Horological instruments:</i>	the manufacture and trading of multi-functional all-plastic quartz watch movements.

	Automation instrument and technology products	Horological instruments	Total
	RMB'000	RMB'000	RMB'000
<b>Year ended 30 June 2007</b>			
Revenue from external customers	<u>307,351</u>	<u>171,900</u>	<u>479,251</u>
Segment result	143,228	62,961	206,189
Unallocated operating income and expenses			<u>(3,940)</u>
<b>Profit from operations</b>			202,249
Finance costs			<u>(2,030)</u>
<b>Profit before taxation</b>			200,219
Income tax			<u>(15,574)</u>
<b>Profit for the year</b>			<u>184,645</u>
Depreciation for the year	<u>1,077</u>	<u>4,505</u>	<u>5,582</u>
Segment assets	136,438	93,107	229,545
Unallocated assets			<u>158,585</u>
Total assets			<u>388,130</u>
Segment liabilities	44,460	31,503	75,963
Unallocated liabilities			<u>53,898</u>
Total liabilities			<u>129,861</u>
Capital expenditure incurred during the year	<u>13,139</u>	<u>24,868</u>	<u>38,007</u>

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	<b>Automation instrument and technology products</b> <i>RMB'000</i>	<b>Horological instruments</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Year ended 30 June 2008</b>			
Revenue from external customers	<u>426,115</u>	<u>174,789</u>	<u>600,904</u>
Segment result	193,974	61,775	255,749
Unallocated operating income and expenses			<u>(13,817)</u>
<b>Profit from operations</b>			241,932
Finance costs			<u>(2,935)</u>
<b>Profit before taxation</b>			238,997
Income tax			<u>(26,925)</u>
<b>Profit for the year</b>			<u>212,072</u>
Depreciation for the year	<u>1,457</u>	<u>5,267</u>	<u>6,724</u>
Segment assets	266,979	121,823	388,802
Unallocated assets			<u>199,939</u>
Total assets			<u>588,741</u>
Segment liabilities	60,804	51,870	112,674
Unallocated liabilities			<u>98,000</u>
Total liabilities			<u>210,674</u>
Capital expenditure incurred during the year	<u>33,270</u>	<u>4,477</u>	<u>37,747</u>

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	<b>Automation Instrument and technology products</b> <i>RMB'000</i>	<b>Horological instruments</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Year ended 30 June 2009</b>			
Revenue from external customers	<u>462,425</u>	<u>157,578</u>	<u>620,003</u>
Segment result	199,375	49,260	248,635
Unallocated operating income and expenses			<u>(69)</u>
<b>Profit from operations</b>			248,566
Finance costs			<u>(5,775)</u>
<b>Profit before taxation</b>			242,791
Income tax			<u>(42,834)</u>
<b>Profit for the year</b>			<u>199,957</u>
Depreciation for the year	<u>1,890</u>	<u>5,534</u>	<u>7,424</u>
Segment assets	315,850	128,119	443,969
Unallocated assets			<u>219,641</u>
Total assets			<u>663,610</u>
Segment liabilities	96,085	52,746	148,831
Unallocated liabilities			<u>144,748</u>
Total liabilities			<u>293,579</u>
Capital expenditure incurred during the year	<u>42,615</u>	<u>5,619</u>	<u>48,234</u>

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### Geographical segments

All the segments are primarily managed and operated in the PRC (excluding Hong Kong). In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets are based on the geographical location of the assets.

	The PRC (excluding Hong Kong) RMB’000	Hong Kong RMB’000	Total RMB’000
<b>Year ended 30 June 2007</b>			
Revenue from external customers	415,712	63,539	479,251
Segment assets	388,130	—	388,130
Segment liabilities	129,861	—	129,861
Capital expenditure	<u>38,007</u>	<u>—</u>	<u>38,007</u>
<b>Year ended 30 June 2008</b>			
Revenue from external customers	519,657	81,247	600,904
Segment assets	580,125	8,616	588,741
Segment liabilities	192,626	18,048	210,674
Capital expenditure	<u>37,077</u>	<u>670</u>	<u>37,747</u>
<b>Year ended 30 June 2009</b>			
Revenue from external customers	557,493	62,510	620,003
Segment assets	648,815	14,795	663,610
Segment liabilities	270,830	22,749	293,579
Capital expenditure	<u>48,234</u>	<u>—</u>	<u>48,234</u>

### 3 OTHER REVENUE AND EXPENSES

	Years ended 30 June		
	2007 RMB’000	2008 RMB’000	2009 RMB’000
<i>Other revenue</i>			
Interest income	1,439	1,419	1,436
Government grants	<u>511</u>	<u>6</u>	<u>—</u>
	<u>1,950</u>	<u>1,425</u>	<u>1,436</u>
<i>Other expenses</i>			
Late charges and fines — PRC medical insurance provision and housing fund	<u>5,780</u>	<u>9,702</u>	<u>—</u>

Government grants represent various forms of incentives and subsidies granted to the PRC subsidiary by the local authorities.

### 4 OTHER NET LOSSES/(GAIN)

	Years ended 30 June		
	2007 RMB’000	2008 RMB’000	2009 RMB’000
Net exchange losses/(gain)	<u>110</u>	<u>3,112</u>	<u>(63)</u>

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### 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
<b>(a) Finance costs:</b>			
Interest on bank borrowings wholly repayable within five years	2,030	2,935	5,775
<b>(b) Staff costs:</b>			
Contributions to defined contribution retirement plans	347	203	630
Equity-settled share-based payment expenses ( <i>note 22</i> )	—	4,760	22,605
Salaries, wages and other benefits	25,721	30,036	25,207
	<u>26,068</u>	<u>34,999</u>	<u>48,442</u>

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme (the “Scheme”) organised by the PRC municipal government authority in the Fujian province whereby the Group is required to make a contribution at the rate of 18% of the eligible employees’ salaries to the Scheme. The Group has accrued for the required pension fund contributions, which are remitted to the social security office in the Fujian province when the contributions become due. The social security office in the Fujian province is responsible for making the benefit payments to the retired employee covered under the Scheme.

The Group maintains a mandatory provident fund (the “MPF Scheme”) for all qualifying employees in Hong Kong. The Group’s and employee’s contributions to the MPF Scheme are based on 5% of the employees’ relevant income (up to a cap of monthly relevant income of HKD20,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

The Group has no other material obligation for the payment of pension benefits associated with the two schemes beyond the annual contributions described above.

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
<b>(c) Other items:</b>			
Depreciation ( <i>note 11</i> )	5,582	6,724	7,424
Impairment losses on trade and other receivables ( <i>note 15(b)</i> )	3,655	117	—
Research and development costs	1,663	3,261	7,235
Increase in provision for warranty ( <i>note 21</i> )	307	426	462
Auditors’ remuneration	27	20	20
Operating lease charges in respect of leasehold land and properties	1,030	1,556	1,925
Cost of inventories ( <i>notes (i) and 14(b)</i> )	<u>257,209</u>	<u>317,930</u>	<u>323,762</u>

*Note:*

- (i) Cost of inventories includes RMB20,339,000, RMB22,052,000 and RMB20,257,000 relating to staff costs and depreciation, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

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### 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS

(a) Taxation in the consolidated income statements represents:

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
<b>Current tax — PRC income tax</b>			
Provision for the year	16,172	21,977	31,923
<b>Deferred tax</b>			
Origination and reversal of temporary differences (note 20(b))	(598)	4,948	10,911
	<u>15,574</u>	<u>26,925</u>	<u>42,834</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group does not have assessable profits subject to Hong Kong Profits Tax during the Relevant Period.
- (iii) Prior 1 January 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits.

Being a production-type foreign investment enterprise situated in the Mawei District of Fuzhou, which was an Economic and Technological Development Zone, Fujian Wide Plus was entitled to a preferential income tax rate of 15% and was granted an income tax holiday of a 2-year full exemption followed by a 3-year 50% exemption commencing from the first profit-making year after offsetting accumulated tax losses (“2 + 3 tax holiday”) as approved by Rong Kai Guo Shui Han (2004) No. 74 issued by Fuzhou Economic and Technological Development Zone State Tax Bureau. Fujian Wide Plus commenced its 2 + 3 tax holiday on 1 January 2004. Accordingly, Fujian Wide Plus was exempted from income tax from 1 January 2004 to 31 December 2005 and was subject to income tax at 7.5% from 1 January 2006 to 31 December 2007.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People’s Congress promulgated the Corporate Income Tax Law of the PRC (“the new CIT Law”), which took effect on 1 January 2008. As a result of the new CIT Law, the statutory income tax rate for enterprises in the PRC has been reduced from 33% to 25%. On 6 and 26 December 2007, the State Council released the *Implementation Rules to the Corporate Income Tax Law* (“Implementation Rules”) and Guo Fa [2007] No. 39 *Notice on Carrying out the Transitional Preferential Policies concerning Corporate Income Tax* (“Circular 39”), respectively. The new CIT Law, the Implementation Rules and Circular 39 provide a 5-year transitional period from 1 January 2008 for those entities which were established before 16 March 2007 and which were entitled to a preferential lower income tax rate under the then effective tax laws and regulations, as well as grandfathering on the 2 + 3 tax holidays. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for calendar years 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Further, under the new CIT Law, a recognised Advanced and New Technology Enterprise (“ANTE”) that meets the conditions according to the *Notice on Issuance of the Administrative Measures governing the Recognition of Advanced and New Technology Enterprises* issued on 14 April 2008 is entitled to a reduced income tax rate of 15%.

On 12 December 2008, Fujian Wide Plus was recognised as an ANTE under the new CIT Law as approved by the relevant authorities for a period of 3-year effective retroactively from 1 January 2008 to 31 December 2010. According to Circular 39, where the transitional preferential income tax policies and the preferential policies prescribed under the new CIT Law and the Implementation Rules overlap, an enterprise shall choose to carry out the most preferential policy, but shall not enjoy multiple preferential

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policies. Fujian Wide Plus has chosen to enjoy the 2+3 tax holiday grandfathering treatment until its expiry on 31 December 2008. Accordingly, Fujian Wide Plus is subject to income tax at 9% from 1 January 2008 to 31 December 2008 and at 15% from 1 January 2009 to 31 December 2010.

In addition, under the new CIT Law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion*, or Mainland China/HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to Cai Shui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undisturbed profits generated prior to 1 January 2008 are exempt from such withholding tax. Accordingly, dividends receivable by Wide Plus High Precision from Fujian Wide Plus in respect of profits earned since 1 January 2008 is subject to 5% withholding tax. Deferred tax liabilities have been recognised for undistributed retained profits of Fujian Wide Plus earned since 1 January 2008 to the extent that the profits are likely to be distributed in the foreseeable future (see note 20(b)).

**(b) Reconciliation between income tax expense and profit before taxation at applicable tax rates:**

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Profit before taxation	<u>200,219</u>	<u>238,997</u>	<u>242,791</u>
Tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	30,033	43,019	46,556
Tax concessions	(15,017)	(24,440)	(19,351)
Tax effect of non-deductible expenses	558	2,803	4,713
Effect of changes in tax rate	—	(152)	(1,014)
Withholding tax on unremitted profits of the PRC subsidiary ( <i>note 20(b)</i> )	<u>—</u>	<u>5,695</u>	<u>11,930</u>
Actual income tax expense	<u>15,574</u>	<u>26,925</u>	<u>42,834</u>

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### 7 DIRECTORS' REMUNERATION

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

#### Year ended 30 June 2007

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits in kind <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Share-based payments <i>RMB'000</i>	Bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>						
Mr. Wong Fun Chung	—	164	—	—	—	164
Mr. Wong Sun Hoi	—	—	—	—	—	—
Mr. Zou Chong	—	60	2	—	—	62
Mr. Su Fang Zhong	—	60	2	—	—	62
Mr. Cheung Chuen	—	—	—	—	—	—
<b>Independent non-executive directors</b>						
Dr. Hu Guo Qing	—	—	—	—	—	—
Ms. Ji Qin Zhi	—	—	—	—	—	—
Mr. Chan Yuk Hiu, Taylor	—	—	—	—	—	—
<b>Total</b>	<b>—</b>	<b>284</b>	<b>4</b>	<b>—</b>	<b>—</b>	<b>288</b>

#### Year ended 30 June 2008

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits in kind <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Share-based payments <i>RMB'000</i>	Bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>						
Mr. Wong Fun Chung	—	165	—	—	—	165
Mr. Wong Sun Hoi	—	—	—	138	—	138
Mr. Zou Chong	—	95	2	733	—	830
Mr. Su Fang Zhong	—	95	2	733	—	830
Mr. Cheung Chuen	—	407	8	183	—	598
<b>Independent non-executive directors</b>						
Dr. Hu Guo Qing	—	26	—	—	—	26
Ms. Ji Qin Zhi	—	26	—	—	—	26
Mr. Chan Yuk Hiu, Taylor	—	26	—	—	—	26
<b>Total</b>	<b>—</b>	<b>840</b>	<b>12</b>	<b>1,787</b>	<b>—</b>	<b>2,639</b>



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Year ended 30 June 2009

	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to retirement benefit scheme RMB'000	Share-based payments RMB'000	Bonuses RMB'000	Total RMB'000
<b>Executive directors</b>						
Mr. Wong Fun Chung	—	165	—	—	—	165
Mr. Wong Sun Hoi	—	—	—	678	—	678
Mr. Zou Chong	—	144	3	3,617	—	3,764
Mr. Su Fang Zhong	—	144	3	3,617	—	3,764
Mr. Cheung Chuen	—	573	11	904	—	1,488
<b>Independent non-executive directors</b>						
Dr. Hu Guo Qing	—	—	—	—	—	—
Ms. Ji Qin Zhi	—	—	—	—	—	—
Mr. Chan Yuk Hiu, Taylor	44	—	—	—	—	44
Total	<u>44</u>	<u>1,026</u>	<u>17</u>	<u>8,816</u>	<u>—</u>	<u>9,903</u>

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. Except as disclosed in note 22(i), there was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

### 8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three, four and four were also directors of the Company for the years ended 30 June 2007, 2008 and 2009 respectively whose remuneration is disclosed in note 7 above. The remuneration in respect of the remaining individual(s) is as follows:

	Years ended 30 June		
	2007 RMB'000	2008 RMB'000	2009 RMB'000
Salaries and other emoluments	120	95	325
Share-based payments	—	458	—
Contributions to retirement benefit scheme	—	—	12
	<u>120</u>	<u>553</u>	<u>337</u>

The emoluments of these individual(s) are within the following band:

	Number of individuals Years ended 30 June		
	2007	2008	2009
RMB Nil to RMB1,000,000	<u>2</u>	<u>1</u>	<u>1</u>

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### 9 DIVIDEND

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Dividend declared and paid during the year	<u>280,864</u>	<u>—</u>	<u>230,326</u>

The directors consider that the dividend payments made during the Relevant Period are not indicative of future dividend policy of the Group.

### 10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for each of the Relevant Period and the 3,800,000 ordinary shares of the Company issued on 3 April 2008 and 746,200,000 ordinary shares to be issued pursuant to a capitalisation issue as approved by the existing shareholders in the shareholders’ written resolutions to the existing shareholders of the Company passed on [date] as if these shares were outstanding throughout the entire Relevant Period.

The capitalisation issue is conditional upon the [●]. The issue will be completed by way of capitalisation of balance standing to the credit of the share premium account of the Company arising from the proceeds of the [●].

The calculation of the basic and diluted earnings per share is based on the following data:

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
<b>Earnings:</b>			
Net profit (basic and diluted)	<u>184,645</u>	<u>212,072</u>	<u>199,957</u>

	Years ended 30 June		
	2007	2008	2009
	'000	'000	'000
<b>Number of shares:</b>			
Number of ordinary shares (basic)	750,000	750,000	750,000
Effect of deemed issue of shares under the Company’s Pre-IPO share option scheme	<u>—</u>	<u>3,270</u>	<u>—</u>
Number of ordinary shares (diluted)	<u>750,000</u>	<u>753,270</u>	<u>750,000</u>

	Years ended 30 June		
	2007	2008	2009
	RMB cents	RMB cents	RMB cents
Basic earnings per share	<u>24.62</u>	<u>28.28</u>	<u>26.66</u>
Diluted earnings per share	<u>24.62</u>	<u>28.15</u>	<u>26.66</u>

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### 11 PROPERTY, PLANT AND EQUIPMENT

	<b>Machinery and equipment</b> <i>RMB'000</i>	<b>Leasehold improvements</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Furniture and fixtures</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Cost:</b>					
At 1 July 2006	36,766	1,131	283	1,789	39,969
Additions	13,355	586	—	230	14,171
Injection by the holding company prior to the Reorganisation	12,715	—	—	—	12,715
At 30 June 2007	62,836	1,717	283	2,019	66,855
At 1 July 2007	62,836	1,717	283	2,019	66,855
Additions	5,537	384	639	483	7,043
At 30 June 2008	68,373	2,101	922	2,502	73,898
At 1 July 2008	68,373	2,101	922	2,502	73,898
Exchange adjustment	—	1	—	1	2
Additions	7,214	—	—	356	7,570
Transfer from construction in progress ( <i>note 12</i> )	295	680	—	—	975
At 30 June 2009	75,882	2,782	922	2,859	82,445
<b>Accumulated depreciation:</b>					
At 1 July 2006	4,891	69	33	466	5,459
Charge for the year	4,978	238	25	341	5,582
At 30 June 2007	9,869	307	58	807	11,041
At 1 July 2007	9,869	307	58	807	11,041
Charge for the year	5,807	341	66	510	6,724
At 30 June 2008	15,676	648	124	1,317	17,765
At 1 July 2008	15,676	648	124	1,317	17,765
Charge for the year	6,159	785	83	397	7,424
At 30 June 2009	21,835	1,433	207	1,714	25,189
<b>Net book value:</b>					
At 30 June 2007	52,967	1,410	225	1,212	55,814
At 30 June 2008	52,697	1,453	798	1,185	56,133
At 30 June 2009	54,047	1,349	715	1,145	57,256

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### 12 CONSTRUCTION IN PROGRESS

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At 1 July	185	650	31,354
Additions	465	30,704	40,664
Transfer to fixed assets ( <i>note 11</i> )	—	—	(975)
	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June	<u>650</u>	<u>31,354</u>	<u>71,043</u>

Construction in progress comprises costs incurred on plants and leasehold improvements not yet completed at the respective balance sheet dates.

### 13 LEASE PREPAYMENTS

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At 1 July	—	10,656	10,656
Additions	10,656	—	—
	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June	<u>10,656</u>	<u>10,656</u>	<u>10,656</u>

Lease prepayments represent prepayments for land use rights in the PRC with a lease term expiring in 2056.

### 14 INVENTORIES

#### (a) Inventories in the consolidated balance sheets comprise:

	As at 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Raw materials and consumables	14,534	21,364	19,932
Work in progress	2,547	5,972	2,969
Finished goods	5,432	6,019	5,729
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>22,513</u>	<u>33,355</u>	<u>28,630</u>

None of the inventories at 30 June 2007, 2008 and 2009 were carried at net realisable value.

#### (b) An analysis of the amount of inventories recognised as an expense is as follows:

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Cost of inventories sold ( <i>note 5(c)</i> )	<u>257,209</u>	<u>317,930</u>	<u>323,762</u>

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### 15 TRADE AND OTHER RECEIVABLES

	As at 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables	142,285	259,043	261,661
Less: allowance for doubtful debts ( <i>note 15(b)</i> )	<u>(3,655)</u>	<u>(3,655)</u>	<u>(3,655)</u>
	..... 138,630	..... 255,388	..... 258,006
Prepayments for inventories purchase	—	—	15,000
Prepaid listing expenses	—	7,059	13,463
Other prepayments, deposits and receivables	4,076	1,526	3,406
Less: allowance for doubtful debts ( <i>note 15(b)</i> )	<u>(774)</u>	<u>—</u>	<u>—</u>
	..... 3,302	..... 8,585	..... 31,869
	<u>141,932</u>	<u>263,973</u>	<u>289,875</u>

All of the trade and other receivables are expected to be recovered within one year. The Group’s credit policy is set out in note 25(a). The Group generally grants credit periods of 3–5 months from the date of billing to its trade customers.

#### (a) Ageing analysis

An ageing analysis of trade receivables (net of allowance for doubtful debts) as of the balance sheet date is as follows:

	As at 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired (current)	..... 138,485	..... 221,066	..... 240,823
Less than 1 month past due	108	27,174	—
1 to 3 months past due	37	7,148	8,463
More than 3 months but less than 12 months past due	<u>—</u>	<u>—</u>	<u>8,720</u>
Amounts past due	..... 145	..... 34,322	..... 17,183
	<u>138,630</u>	<u>255,388</u>	<u>258,006</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a wide range of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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### (b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(h)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At 1 July	774	4,429	3,655
Impairment loss recognised	3,655	—	—
Uncollectible amounts written off	—	(774)	—
	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June	<u>4,429</u>	<u>3,655</u>	<u>3,655</u>

The individually impaired receivables related to customers and other third parties that were in financial difficulties and management assessed that none of the receivables are expected to be recovered. Consequently, specific allowances for doubtful debts of RMB3,655,000, RMB Nil and RMB Nil were recognised for the years ended 30 June 2007, 2008 and 2009 respectively. The Group does not hold any collateral over these balances.

### (c) Bank loans secured by trade receivables

As at 30 June 2008 and 2009, trade receivables of the Group amounted to RMB13,602,000 and RMB6,663,000 respectively were assigned and charged in favour of a bank in the PRC as a security for loans of RMB12,024,000 and RMB5,997,000 respectively.

## 16 CASH AND CASH EQUIVALENTS

As at 30 June 2007, 2008 and 2009, cash and bank balances that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB153,240,000, RMB190,445,000 and RMB202,912,000 respectively. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

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### 17 BANK LOANS

As at 30 June 2007, 2008 and 2009, the bank loans were repayable as follows:

	As at 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within 1 year	21,808	56,024	78,997
After 1 year but within 2 years	3,808	—	—
	<u>25,616</u>	<u>56,024</u>	<u>78,997</u>
Representing:			
Secured bank loans (note (i)):			
— secured by property, plant and equipment (note 27(b)(ii))	7,616	—	—
— secured by trade receivables (note 15(c))	—	12,024	5,997
	<u>7,616</u>	<u>12,024</u>	<u>5,997</u>
Unsecured bank loans (note (ii)):			
— guaranteed by related parties (note 27(b)(iii) and (v)) and a third party	18,000	40,000	55,000
— others	—	4,000	18,000
	<u>18,000</u>	<u>44,000</u>	<u>73,000</u>
	<u>25,616</u>	<u>56,024</u>	<u>78,997</u>

- (i) The secured loan as at 30 June 2007 bore interest at a rate of LIBOR plus 3% per annum which ranged from 8.33% to 8.52% for the year ended 30 June 2007.

As at 30 June 2008, except for a secured loan of RMB 2,940,000 which bore interest at a fixed rate of 6.08%, the secured loans of RMB5,792,000 and RMB3,292,000 bore interest at rates of HIBOR plus 5.5% per annum and HIBOR plus 7.5% per annum respectively, which ranged from 7.73% to 9.73% for the year ended 30 June 2008.

The secured loan as at 30 June 2009 bore interest at rate of 3 month HIBOR which ranged from 0.36% to 3.66% for the year ended 30 June 2009.

At 30 June 2007, 2008 and 2009, certain of the Group's assets were pledged to secure loans and banking facilities to the PRC subsidiaries as follows:

	As at 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	13,777	—	—
Trade receivables	—	13,602	6,663
	<u>13,777</u>	<u>13,602</u>	<u>6,663</u>

At 30 June 2007, certain assets of the related parties of the Group were charged and assigned in favour of a bank in the PRC as security for the secured bank loan granted to the PRC subsidiary. Details of assets charged and assigned are set out in note 27(b)(ii).

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- (ii) The unsecured bank loans as at 30 June 2007, 2008 and 2009 bore fixed interest rates at 5.58% to 7.96%, 8.59% to 9.34% and 5.35% to 8.96% per annum respectively.
- (iii) At 30 June 2007, 2008 and 2009, the banking facilities of the PRC subsidiary amounted to RMB25,616,000, RMB70,000,000 and RMB83,997,000 respectively, which were utilised to the extent of RMB25,616,000, RMB56,024,000 and RMB78,997,000 respectively.

### 18 TRADE AND OTHER PAYABLES

	As at 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade payables	56,770	80,756	115,280
Retirement benefit contributions, fines and late charges payable	17,711	31,850	31,850
Other payables and accruals	10,780	12,320	11,881
	<u>85,261</u>	<u>124,926</u>	<u>159,011</u>

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date. The credit periods granted by various suppliers generally range from 90 days to 120 days.

	As at 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Due within 3 months	56,352	75,072	91,581
Due after 3 months but within 6 months	130	5,168	23,699
Due after 6 months but within 1 year	285	300	—
Due after 1 year but within 2 years	3	216	—
	<u>56,770</u>	<u>80,756</u>	<u>115,280</u>

All of the trade and other payables are expected to be settled within one year.

### 19 AMOUNTS DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS OF THE COMPANY

The amounts due from related parties of the Company are unsecured, interest-free and recoverable on demand. The amounts due to related parties and shareholders of the Company are unsecured, interest-free and have no fixed repayment terms.

### 20 INCOME TAX IN THE CONSOLIDATED BALANCE SHEETS

- (a) Current taxation in the consolidated balance sheets represents:

	As at 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Balance of provision for PRC income tax	<u>4,634</u>	<u>6,378</u>	<u>10,587</u>



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### (b) Deferred tax assets/(liabilities) recognised:

	Provisions RMB'000	Accelerated tax depreciation RMB'000	Unremitted profits of PRC subsidiary RMB'000	Total RMB'000
<b>Deferred tax arising from:</b>				
At 1 July 2006	152	—	—	152
Credited to consolidated income statements (note 6(a))	<u>598</u>	<u>—</u>	<u>—</u>	<u>598</u>
At 30 June 2007	<u>750</u>	<u>—</u>	<u>—</u>	<u>750</u>
At 1 July 2007	750	—	—	750
Credited/(charged) to consolidated income statements (note 6(a))	<u>819</u>	<u>(72)</u>	<u>(5,695)</u>	<u>(4,948)</u>
At 30 June 2008	<u>1,569</u>	<u>(72)</u>	<u>(5,695)</u>	<u>(4,198)</u>
At 1 July 2008	1,569	(72)	(5,695)	(4,198)
Credited/(charged) to consolidated income statements (note 6(a))	<u>1,107</u>	<u>(88)</u>	<u>(11,930)</u>	<u>(10,911)</u>
At 30 June 2009	<u>2,676</u>	<u>(160)</u>	<u>(17,625)</u>	<u>(15,109)</u>
		<b>As at 30 June</b>		
		<b>2007</b>	<b>2008</b>	<b>2009</b>
		RMB'000	RMB'000	RMB'000
Deferred tax assets recognised on the consolidated balance sheets		750	1,569	2,676
Deferred tax liabilities recognised on the consolidated balance sheets		<u>—</u>	<u>(5,767)</u>	<u>(17,785)</u>
		<u>750</u>	<u>(4,198)</u>	<u>(15,109)</u>

### 21 PROVISION FOR WARRANTY

	Years ended 30 June		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At 1 July	112	355	645
Additional provision made	307	426	462
Provision utilised	<u>(64)</u>	<u>(136)</u>	<u>(52)</u>
At 30 June	<u>355</u>	<u>645</u>	<u>1,055</u>

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within 18 months of delivery of automation instrument and technology products to customers. Provision is therefore made for the best estimate of the expected settlements under these agreements in respect of sales made prior to the balance sheet dates. The amount of provision takes into account the Group's recent claim experience and provision is only made where a warranty claim is probable.

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### 22 EQUITY COMPENSATION BENEFITS

#### Pre-IPO share option scheme

Pursuant to an ordinary resolution passed on 17 April 2008, the Company adopted a pre-IPO share option scheme for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are available to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The pre-IPO share option scheme remains in force for a period of approximately 4.2 years from adoption of such scheme and will expire on 30 June 2012.

(i) *The terms and conditions of the options granted during the Relevant Period are as follows:*

	Number of options	Vesting conditions	Contractual life of options
Options granted to Directors:			
— 21 April 2008	6,460,000	0.9 year from the date of grant	2.2 years
	6,470,000	1.2 years from the date of grant	3.2 years
	6,570,000	2.2 years from the date of grant	4.2 years
Options granted to employees:			
— 21 April 2008	11,800,000	0.9 year from the date of grant	2.2 years
	11,800,000	1.2 years from the date of grant	3.2 years
	<u>6,900,000</u>	2.2 years from the date of grant	4.2 years
	<u><u>50,000,000</u></u>		

On 21 January 2009, all of the 50,000,000 options granted were unconditionally cancelled by the Company’s Directors and employees. In accordance with the accounting policy set out in note 1(n)(iii), the cancellation of options was accounted for as an acceleration of vesting and additional equity-settled share-based payment expenses of RMB12,170,928 were recognised in the Financial Information for the year ended 30 June 2009.

(ii) *The number and weighted average exercise prices of options are as follows:*

	Weighted average exercise price HKD	Number of options
Outstanding at 1 July 2006 and 2007	—	—
Granted	2.2	<u>50,000,000</u>
Outstanding at 30 June 2008	2.2	50,000,000
Cancelled		<u>(50,000,000)</u>
Outstanding at 30 June 2009	—	—
Exercisable at 30 June 2007, 2008 and 2009	—	<u><u>—</u></u>

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### (iii) Fair value of options granted and assumptions

The fair value of services received in return for options granted in 2008 is measured by reference to the fair value of options granted. The estimate of the fair value of the services received is measured based on the Binomial Option Pricing Model. The contractual life of the option is used as an input into this model.

Fair value at measurement date	HKD0.56–HKD0.70
Share price	HKD2.23
Exercise price	HKD2.20
Expected volatility	45.82%–48.69%
Expected option life	4.2 years
Expected dividends	3.11%
Risk free interest rate	1.62%–2.12%

The expected volatility is based on the historic volatility of comparable listed companies (calculated based on the weighted average remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends.

There was no market conditions associated with the share option grant.

## 23 SHARE CAPITAL

As disclosed in Section A above, the Financial Information has been prepared as if the Group had always been in existence. The financial statements of the companies comprising the Group during the Relevant Period were consolidated as if the Group existed throughout the period presented.

For the purpose of this report, the capital of the Group as at 30 June 2007 represents the paid-in capital of Fujian Wide Plus.

The Company was incorporated on 29 November 2007 with issued share capital of HKD0.1 comprising of 1 share issued at par.

On 3 April 2008, the Company acquired the entire share capital of Wide Plus High Precision by issue and allotment of 3,799,999 shares of HKD0.1 each (equivalent to RMB342,000).

By an ordinary resolution of the Company passed on 19 March 2009, the Company's authorised share capital was increased to HKD502,000 by the creation of an additional 1,220,000 shares of HKD0.1 each. Following the increase, the Company's authorised share capital of HKD502,000 was redesignated and reclassified into 5,000,000 Class A shares of HKD0.1 each and 2,000,000 Class B shares of HKD0.001 each, having the rights and privileges and subject to the restrictions set out in the Articles of Association of the Company.

Pursuant to the convertible bonds (“CB”) subscription deed entered into by the Company with Standard Bank Plc, Standard Bank Asia Limited and the existing shareholders on 8 July 2009, upon conversion of the CB, all Class B shares subscribed by the holder(s) of the CB shall be automatically redeemed by the Company at nil consideration and cancelled, and any Class B Shares not otherwise redeemed and cancelled will be redeemed automatically by the Company at nil consideration and cancelled without any compensation.

Share capital in the consolidated balance sheet as at 30 June 2008 and 2009 represents the nominal value of the issued share capital of the Company.

## 24 RESERVES

### (a) Surplus reserves

Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profits of the Group's subsidiary operating in the PRC are transferred to the reserve fund. The amounts of profits transferred to the reserve fund are determined by the board of directors of the subsidiary. The fund is restricted as to use and is not available for distribution.

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**(b) Share-based compensation reserve**

Share-based compensation reserve represents value of employee services in respect of share options granted under the Pre-IPO share option scheme set out in note 22.

**(c) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies set out in note 1(r).

**(d) Distributable reserve**

The Company was incorporated on 29 November 2007 and has not carried out any business since the date of its incorporation. Accordingly, there were no reserves available for distribution to shareholders as at 30 June 2008 and 2009.

On the basis set out in Section A above, the aggregate amounts of distributable reserves at 30 June 2007, 2008 and 2009 of the companies comprising the Group were RMB83,910,000, RMB295,982,000 and RMB265,613,000 respectively.

### 25 FINANCIAL INSTRUMENTS

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

**(a) Credit risk**

The Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's bank deposits are placed with major financial institutions and the Group considers the credit risk to be insignificant. At the balance sheet date, the Group has a certain concentration of credit risk as more than 90% of total cash and cash equivalents were deposited at one financial institution in the PRC as at 30 June 2007, 2008 and 2009.

Trade receivables are presented net of the allowance for bad and doubtful debts. Credit risks and exposures are controlled and monitored on an on-going basis by performing credit evaluation on customers on a case-by-case basis. These receivables are normally due within 120 to 150 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 13% and 51%, 9% and 33%, 10% and 35% of the total trade receivables were due from the Group's largest customer and the five largest customers as at 30 June 2007, 2008 and 2009 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets after deducting any impairment allowance.

The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

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### (b) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of short-term fluctuations in cash flows. The Group's corporate finance department is responsible for maintaining a balance between continuity and flexibility of funding through the use of bank facilities in order to meet the Group's liquidity requirements.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	As at 30 June									
	2007			2008			2009			
	Carrying amount	Total contracted undiscounted cash outflow	Within 1 year or on demand	More than 1 year but less than 2 years	Carrying amount	Total contracted undiscounted cash outflow	Within 1 year or on demand	Carrying amount	Total contracted undiscounted cash outflow	Within 1 year or on demand
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	85,261	85,261	85,261	—	124,926	124,926	124,926	159,011	159,011	159,011
Amounts due to related parties	4,200	4,200	4,200	—	12,098	12,098	12,098	20,413	20,413	20,413
Amounts due to shareholders of the Company	9,795	9,795	9,795	—	4,836	4,836	4,836	5,731	5,731	5,731
Bank loans	25,616	26,805	22,825	3,980	56,024	57,858	57,858	78,997	80,512	80,512

### (c) Interest rate risk

The interest rates and maturity information of the Group's bank loans are disclosed in note 17. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its debt obligations.

#### *Effective interest rates and repricing analysis*

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier:

	As at 30 June						
	Effective interest rate	2007		2008		2009	
		One year or less	One to two years	Effective interest rate	One year or less	Effective interest rate	One year or less
		RMB'000	RMB'000		RMB'000		RMB'000
<b>Repricing dates for assets which reprice before maturity</b>							
Cash at bank	0.72%	153,240	—	0.72%	191,299	0.36%	203,134
<b>Maturity for liabilities which do not reprice before maturity</b>							
Bank loans	7.89%	21,808	3,808	8.76%	56,024	6.01%	78,997

#### *Sensitivity analysis*

At 30 June 2007, 2008 and 2009, it is estimated that a general increase of one percentage point in the interest rates of the floating rate loans disclosed in note 17, with all other variables held constant, would decrease the Group's profit before tax by approximately RMB97,000, RMB322,000 and RMB590,000 for the

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years ended 30 June 2007, 2008 and 2009. This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet dates and had been applied to the exposure to interest rate risk for financial instruments at those dates. The one percentage point increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis during the Relevant Period.

A one percentage point decrease in the interest rates of the floating rate loans at 30 June 2007, 2008 and 2009 would have had equal but opposite effect on the Group's profits, on the basis that all other variables remain constant.

**(d) Commodity price risk**

The major components used in the production of the Group's products included copper coils. The Group is exposed to fluctuations in the prices of copper coils which are influenced by global as well as regional supply and demand conditions. Fluctuations in the price of copper coils could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

**(e) Supply risk**

The Group sources most of its main raw materials and components from a limited group of suppliers. Interruption or reduction of supply of these raw materials and components could adversely affect the Group's financial performance. The Group's policy is to regularly monitor the stock level of raw materials and components to ensure that it maintains sufficient raw materials and components to meet its production schedules and commitments to customers in the short and longer term. Management does not expect that there will be difficulties to obtain adequate supplies of raw materials and components in a timely manner and at a stable cost. During the years ended 30 June 2007, 2008 and 2009, the Group's supplies of raw materials from the five largest suppliers represented 81%, 77% and 73% of the Group's total raw materials purchases respectively.

**(f) Foreign currency risk**

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency other than the functional currency of the operations to which they relate.

The currencies giving rise to this risk are primarily USD and HKD. During the years ended 30 June 2007, 2008 and 2009, sales denominated in foreign currencies represented 13%, 14% and 10% of the Group's total turnover respectively. The Group does not employ any financial instruments for hedging purposes.

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The following table details the Group’s exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2007		As at 30 June 2008		2009	
	USD’000	HKD’000	USD’000	HKD’000	USD’000	HKD’000
	Cash and cash equivalents	24	39	20	862	29
Trade and other receivables	329	13,108	287	11,263	573	30,638
Amounts due from/(to) a related party	307	(425)	—	(13,424)	—	(22,823)
Bank loans	(1,000)	—	—	(10,126)	—	(6,804)
Amounts due to shareholders of the Company	—	(8,103)	—	(5,250)	—	(6,250)
Trade and other payables	—	—	—	(505)	—	(2,984)
Overall net exposure	<u>(340)</u>	<u>4,619</u>	<u>307</u>	<u>(17,180)</u>	<u>602</u>	<u>(6,626)</u>

### Sensitivity analysis

A 5 percent strengthening of the RMB against the following currencies at 30 June 2007, 2008 and 2009 would have decreased/(increased) the profit of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group entities’ exposure to currency for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis throughout the Relevant Period.

	Years ended 30 June		
	2007 RMB’000	2008 RMB’000	2009 RMB’000
US dollars	(119)	96	175
Hong Kong dollars	<u>207</u>	<u>(687)</u>	<u>(248)</u>
	<u>88</u>	<u>(591)</u>	<u>(73)</u>

A 5 percent weakening of the RMB against the above currencies at 30 June 2007, 2008 and 2009 would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### (g) Fair value

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 30 June 2007, 2008 and 2009. The amounts due to/from related parties and shareholders are unsecured, interest-free and have no fixed repayment terms and recoverable on demand. Given these terms it is not meaningful to disclose fair values.

### (h) Capital management

The Group’s primary objectives when managing capital are to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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The Group defines “capital” as including all components of equity plus loans from group companies and shareholders with no fixed terms of repayment, less unaccrued proposed dividends. Trading balances that arise as a result of trading transactions with other group companies are not regarded as capital. On this basis, the amount of capital employed at 30 June 2007, 2008 and 2009 were RMB268,064,000, RMB382,903,000 and RMB375,762,000 respectively.

The Group’s capital structure is regularly reviewed and managed with due regard to the capital management practices of the Group. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors’ fiduciary duties towards the Group or the requirements of the company laws of the jurisdictions concerned for each of the entities comprising the Group. The results of the directors’ review of the Group’s capital structure are used as a basis for the determination of the level of dividends, if any, that are declared.

The Group was not subject to externally imposed capital requirements during the Relevant Period.

### 26 COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June		
	2007	2008	2009
	RMB’000	RMB’000	RMB’000
Within 1 year	487	1,847	1,244
After 1 year but within 5 years	—	3,915	3,658
After 5 years	—	9,671	8,727
	<u>487</u>	<u>15,433</u>	<u>13,629</u>

The Group is the lessee in respect of properties held under an operating lease. The lease of a property located in Hong Kong runs for an initial period of 2 years and the leases of properties located in the PRC run for an initial period of 15 years. The leases have options to renew when all terms are renegotiated. The leases do not include contingent rentals.

#### (b) Capital commitments

Capital commitments outstanding at 30 June 2007, 2008 and 2009 not provided for in the Financial Information were as follows:

	As at 30 June		
	2007	2008	2009
	RMB’000	RMB’000	RMB’000
Contracted for	—	46,842	12,480
Authorised but not contracted for	<u>256,650</u>	<u>181,970</u>	<u>184,127</u>
	<u>256,650</u>	<u>228,812</u>	<u>196,607</u>



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### 27 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed in notes 17 and 19, the Group entered into the following material related party transactions.

During the Relevant Period, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Wide Plus Investments Limited (“Wide Plus Investments”)	Effectively 72.75% owned by Mr. Wong Fun Chung, controlling shareholder of the Company, till 13 December 2007
	Effectively 50.00% owned by Ms. Fung Ping, spouse of the controlling shareholder of the Company, from 14 December 2007
Wide Plus Precision Instruments Company Limited (“Wide Plus”)	Effectively 56.02% owned by Mr. Wong Fun Chung, controlling shareholder of the Company
Fuzhou Shanglun Precision Instruments Company Limited* (“Fuzhou Shanglun”) (福州上潤精密儀器有限公司)	Effectively 56.02% owned by Mr. Wong Fun Chung, controlling shareholder of the Company
Fujian Wide Plus Electronic Company Limited* (“Fujian Electronic”) (福建上潤電子有限公司)	Effectively 56.02% owned by Mr. Wong Fun Chung, controlling shareholder of the Company
Lucky Strong Technologies Limited (“Lucky Strong”)	Effectively 10% owned by Mr. Wong Fun Chung, controlling shareholder of the Company

Fuzhou Shanglun and Fujian Electronic ceased to be related parties of the Group effective from 20 September 2007 and 29 September 2007 respectively, when Wide Plus disposed of its entire interests in Fuzhou Shanglun and Fujian Electronic to an independent third party.

Lucky Strong ceased to be a related party of the Group effective from 16 January 2008, when Mr. Wong Fun Chung disposed of its interests in Lucky Strong to an independent third party.

\* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

#### (a) Recurring transaction

	Years ended 30 June		
	2007	2008	2009
	RMB’000	RMB’000	RMB’000
<i>Transactions with a shareholder</i>			
Lease of a property to the Group			
— Ms. He Yuzhu ( <i>note (i)</i> )	—	60	36

(i) Allied Basic Limited is wholly owned by Ms. He Yuzhu and is one of the shareholders of the Company. Ms. He Yuzhu ceased to be a related party of the Group effective from 2 February 2009, when Ms. He Yuzhu disposed of its entire interest in Allied Basic Limited to an independent third party.

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The directors of the Company are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business. The directors have confirmed that the above transaction will continue in the future after the [●] of the Company’s shares on the Stock Exchange.

### (b) Non-recurring transactions

	Years ended 30 June		
	2007	2008	2009
	RMB’000	RMB’000	RMB’000
<i>Transactions with related companies</i>			
Settlements of promotional expenses on the Group’s behalf			
— Wide Plus ( <i>note (i)</i> )	249	295	—
Short-term advances to the Group			
— Wide Plus	—	24,437	8,286
<i>Transactions with a shareholder</i>			
Settlements of rental expenses on the Group’s behalf			
— Mr. Wong Fun Chung ( <i>note (i)</i> )	1,030	1,031	882
Short-term advances to the Group			
— Mr. Wong Fun Chung	—	8,785	106

(i) The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business.

(ii) As at 30 June 2007, the following assets of the related parties of the Group were assigned and charged in favour of a bank in the PRC as security for a loan of RMB7,616,000 granted by the bank to the PRC subsidiary of the Group;

- a property owned by Mr. Wong Fun Chung, the controlling shareholder, and located in Hong Kong;
- a property owned by Wide Plus Investments and located in Hong Kong;
- all assets of Wide Plus Investments; and
- all of the issued shares of Wide Plus Investments.

The loan was guaranteed by Wide Plus Investments, Wide Plus, Mr. Wong Fun Chung and Ms. Fung Ping (spouse of Mr. Wong Fun Chung).

The loan was fully repaid on 9 November 2007, the charge over the above assets and guarantees were released.

(iii) Certain bank loans of the Group totalling RMB18,000,000 as at 30 June 2007 were guaranteed by Fuzhou Shanglun and Fujian Electronic. The guarantees provided by the related parties have been released before the [●].

(iv) During the Relevant Period, the Group used the technology know-how owned by the controlling shareholder and trademarks owned by Fujian Electronic free of charge. On 21 May 2008, the ownership of the above technology know-how and trademarks had been transferred from the controlling shareholder and Fujian Electronic to a PRC subsidiary of the Company for nil consideration.

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- (v) At 30 June 2008 and 2009, bank loans of RMB40,000,000 and RMB55,000,000 was guaranteed by Mr. Wong Fun Chung with no assets pledged. The directors of the Company have confirmed that the guarantee will be replaced by corporate guarantee by the Group prior to the [●].

The directors of the Company have confirmed that the above transactions will not be continued in the future after the [●] of the Company’s shares on the Stock Exchange.

### (c) Balances with related parties

As at the balance sheet dates, the Group had the following balances with related parties:

	As at 30 June		
	2007 RMB’000	2008 RMB’000	2009 RMB’000
Amounts due from related parties			
— Wide Plus	1,544	—	—
— Lucky Strong	<u>363</u>	<u>—</u>	<u>—</u>
	<u>1,907</u>	<u>—</u>	<u>—</u>
Amounts due to shareholders of the Company			
— Mr. Wong Fun Chung	5,641	4,836	5,731
— Mr. Wong Sun Hoi	<u>4,154</u>	<u>—</u>	<u>—</u>
	<u>9,795</u>	<u>4,836</u>	<u>5,731</u>
Amounts due to related parties			
— Mr. Pang Chang Chi	4,200	—	—
— Wide Plus	<u>—</u>	<u>12,098</u>	<u>20,413</u>
	<u>4,200</u>	<u>12,098</u>	<u>20,413</u>

The balances with related parties are unsecured, interest free and repayable on demand. The outstanding balances with related parties as at 30 June 2009 will be settled before the [●] of the Company’s shares on the Stock Exchange.

### (d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company’s directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Years ended 30 June		
	2007 RMB’000	2008 RMB’000	2009 RMB’000
Short-term employee benefits	449	1,124	1,827
Share-based payments	—	2,842	14,015
Contribution to retirement benefit schemes	<u>4</u>	<u>12</u>	<u>29</u>
	<u>453</u>	<u>3,978</u>	<u>15,871</u>

Total remuneration is included in “staff costs” (see note 5(b)).

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### 28 THE COMPANY'S BALANCE SHEET

The balance sheets of the Company as at 30 June 2008 and 2009 were as follows:

		As at 30 June	
		2008	2009
	Note	RMB'000	RMB'000
<b>Non-current assets</b>			
Investment in a subsidiary	(a)	342	342
<b>Current assets</b>			
Prepayments	(b)	7,059	14,036
<b>Current liabilities</b>			
Amounts due to subsidiaries	(c)	5,431	11,825
Amount due to a related party	(c)	3,877	3,887
Other payables		445	2,451
		9,753	18,163
<b>Net current liabilities</b>		(2,694)	(4,127)
<b>NET LIABILITIES</b>		(2,352)	(3,785)
<b>Capital and reserves</b>			
Share capital	(a)	342	342
Accumulated losses		(2,694)	(4,127)
<b>TOTAL EQUITY</b>		(2,352)	(3,785)

Notes:

- (a) The Company was incorporated on 29 November 2007 with an authorised share capital of HKD380,000 divided into 3,800,000 shares of HKD0.1 each, with one share issued at HKD0.1 upon incorporation. On the same date, the subscriber share of the Company was acquired by Mr. Wong Fun Chung.

On 3 April 2008, the Company entered into a sale and purchase agreement with the shareholders of Wide Plus High Precision to acquire the entire equity interest in Wide Plus High Precision by issue and allotment of 3,799,999 shares at par.

- (b) Prepayments represent listing expenses prepaid by the Company.
- (c) Amounts due to subsidiaries and a related party represent listing expenses and other operating expenses paid by the subsidiaries and the related party on behalf of the Company.

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### 29 ACCOUNTING ESTIMATES AND JUDGEMENTS

#### Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group’s accounting policies have a significant impact on the Group’s financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain.

Notes 22 and 25 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments respectively. Other key areas of estimation uncertainty are as follows:

(a) *Warranty provision*

As explained in note 21, the Group makes provision for the warranty it gives on sales of automation technology products based on the Group’s recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that the Group will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(b) *Impairments*

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group’s net asset value.

Impairment loss for bad and doubtful debts is assessed and provided based on the directors’ regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(c) *Provision for inventories*

The Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value as in accordance with accounting policy as set out in note 1(i). Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group’s net assets value.

(d) *Provision for taxation*

Judgement is required in determining the provision for income tax. There are transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. Additional provision is made in the consolidated financial statements to cover the expected outcome of the ultimate tax determination to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.

(e) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews regularly the useful lives of an asset and its residual value, if any. The useful lives and residual values are based on the Group’s historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

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### 30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information.

Of these developments, the following relate to matters that may be relevant to the Group’s operations and Financial Information:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (revised)	Presentation of financial statements	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009
Amendments to HKFRS 2	Share-based payment — Vesting conditions and cancellations	1 January 2009
HKFRS 3 (revised)	Business combinations	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning or after 1 July 2009
Amendments to HKAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to HKAS 39	Financial instruments: Recognition and measurement — Eligible hedged items	1 July 2009
HK(IFRIC) 17	Distribution of non-cash assets to owners	1 July 2009
Improvements to HKFRSs 2009		1 July 2009 or 1 January 2010

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group’s results of operations and financial position.

### D SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2009:

#### (a) Valuation of properties

For the purpose of the [●], the Group’s properties were revalued as at [31 July] 2009 by Jones Lang LaSalle Sallmanns Limited, an independent firm of surveyors.

The valuation gave rise to a revaluation surplus of approximately [RMB5,141,000] from the carrying amount of the relevant assets at that date. Such revaluation surplus will not be incorporated in the financial statements subsequently prepared for the year ending 30 June 2010. Details of the valuation are set out in Appendix IV to the Document.

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## APPENDIX I

## ACCOUNTANTS’ REPORT

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### **(b) Change in shareholding structure, On-loan Agreement and Senior Term Loan Facility Agreement**

On 8 July 2009, Fortune Plus entered into a sale and purchase agreement with Allied Basic Limited and the Company and pursuant to which Allied Basic Limited agreed to sell and Fortune Plus agreed to purchase 15.89% equity interest in the Company, at the consideration of USD21,700,000. There are no changes to the ultimate controlling equity holder of the Group prior to and after the above transfer of equity interest.

On 8 July 2009, the Company entered in to an On-loan Agreement (the “On-loan agreement”) with Fortune Plus Holdings Limited (“Fortune Plus”), a related company incorporated under the laws of the British Virgin Islands and being controlled by the controlling shareholder of the Company. Under the On-loan agreement, Fortune Plus borrowed a loan from the Company with a principal amount of USD21,700,000. The loan bears interest at LIBOR plus a margin of 8% per annum and is repayable on demand.

On 8 July 2009, the Company entered into a Senior Term Loan Facility Agreement (the “Term Loan agreement”) with Standard Bank Asia Limited ( as arranger, agent and security agent) and Standard Bank Plc (as borrower), pursuant to which Standard Bank Plc agreed to grant a USD21,700,000 term loan (the “term loan”) to the Company. The term loan bears interest at LIBOR plus a margin of 8% per annum, and is repayable in five equal semi-annual instalments beginning on 8 July 2010.

Further details of the transactions are set out in section headed “History and Development’ section in this Document.

The directors of the Company have confirmed that the outstanding balance of loan to Fortune Plus will be settled before the [●] of the Company’s shares on the Stock Exchange.

### **(c) Convertible bonds issue**

On 8 July 2009, the Company issued convertible bonds with a principal amount of USD35,000,000 to Standard Bank Plc. The convertible bonds bear interest at 8% to 14% per annum, payable semi-annually in arrear, and are repayable on 8 July 2014 (the “Maturity Date”).

The holder of convertible bonds has the right at any time, prior to the Maturity Date, to convert all or any portion of the convertible bonds into conversion shares (“Voluntary Conversion”), or in the event of a Qualified IPO as defined in the convertible bonds subscription deed, a mandatory conversion of all outstanding principal amounts into conversion shares (“Mandatory Conversion”). The number of conversion shares to be issued pursuant to a Voluntary Conversion or a Mandatory Conversion will be determined by a conversion price of USD39.8 per share, subject to anti-dilution adjustment.

The outstanding principal amount of convertible bonds together with any unpaid interest shall, unless previously converted into shares or redeemed, be repaid in full if the Qualified IPO has not occurred on the Maturity Date.

On 17 July 2009, part of the proceeds of the convertible bonds issue was injected into Fujian Wide Plus through the increase of its registered and paid up capital from USD13,000,000 to USD20,000,000.

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**APPENDIX I****ACCOUNTANTS’ REPORT**

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Further details of the convertible bonds issue are set out in section headed “History and Development” in the Document.

**E SUBSEQUENT FINANCIAL STATEMENTS**

No statutory financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

Yours faithfully,  
**KPMG**  
*Certified Public Accountants*  
Hong Kong



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**APPENDIX III****PROFIT FORECAST**

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*The forecast of the consolidated net profit of the Group for the [six] months ending 31 December 2009 is set out in the paragraph headed “Profit forecast” in the section headed “Financial Information” in this document.*

**A. BASIS AND ASSUMPTIONS**

The forecast of the consolidated net profit of the Group for the financial [six] months ending 31 December 2009 prepared by the Directors is based on the audited consolidated accounts of the Group for the year ended 30 June 2009, the unaudited consolidated management accounts of our Group for the [●] month ended [●] 2009 and a forecast of the consolidated results of our Group for the [●] months ending [●] 2009. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants’ report, the text of which is set out in Appendix I to this document and is based on the following principal assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any other places in which any member of our Group is incorporated, carries on business;
- (b) there will be no material changes in the bases or rates of taxation or duties applicable to the activities of the Group in Hong Kong, in the PRC, or any other place in which the Group operates or in which any member of the Group is incorporated; and
- (c) there will be no material adverse changes in the foreign currency exchange rates and interest rates from those currently prevailing.

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## APPENDIX IV

## PROPERTY VALUATION

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*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 August 2009 of the property interests of the Group.*



Jones Lang LaSalle Sallmanns Limited  
17/F Dorset House Taikoo Place  
979 King's Road Quarry Bay Hong Kong  
tel +852 2169 6000 fax +852 2169 6001  
Licence No: C-030171

[●] 2009

The Board of Directors  
China High Precision Automation Group Limited  
Room 2805, China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which China High Precision Automation Group Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”) and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 August 2009 (the “date of valuation”).

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

In valuing the property interest in Group I which is currently under construction, we have assumed that it will be developed and completed in accordance with the Group’s latest development proposal provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Groups II and III, which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

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## APPENDIX IV

## PROPERTY VALUATION

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

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates and official plans relating to the property interests in the PRC and have made relevant enquiries. Where possible, we have searched the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the properties or any lease amendments. We have relied considerably on the advice given by the Company’s PRC legal advisers — Dacheng Law Offices, concerning the validity of the property interests located in the PRC.

We have been provided with a copy of lease agreement relating to the property interest and have caused searches to be made at the Hong Kong Land Registry.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the services, etc., for any development thereon. Our valuations have been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

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**APPENDIX IV****PROPERTY VALUATION**

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Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of  
**Jones Lang LaSalle Sallmanns Limited**  
**Paul L. Brown**  
*B.Sc. FRICS FHKIS*  
*Director*

*Note:* Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

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**APPENDIX IV**

**PROPERTY VALUATION**

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**SUMMARY OF VALUES**

**Group I — Property Interest Held Under Development by the Group in the PRC**

<b>No. Property</b>	<b>Capital Value in existing state as at 31 August 2009 RMB</b>
1. A parcel of land, 3 industrial buildings and various structures under construction located at Long Men Village Kuaian Technology Park Economic Technology Development Zone Mawei District Fuzhou City Fujian Province The PRC	[86,840,000]
Sub-total:	<hr/> [86,840,000]

**Group II — Property Interests Rented and Occupied by the Group in the PRC**

<b>No. Property</b>	<b>Capital Value in existing state as at 31 August 2009 RMB</b>
2. A parcel of land, various buildings and structures Lot No.15, Kuaian Yanshenqu Economic Technology Development Zone Mawei District Fuzhou City Fujian Province The PRC	No commercial value
3. An office unit on Level 15 Zhong Mei Mansion No. 107 Gu Tian Road Fuzhou City Fujian Province The PRC	No commercial value
4. Units 1210 and 1211 on Level 1 Block 1 SIPAI Plaza No. 103 Cao Bao Road Shanghai The PRC	No commercial value
Sub-total:	<hr/> Nil

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**APPENDIX IV****PROPERTY VALUATION**

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**Group III — Property Interest Rented and Occupied by the Group in Hong Kong**

<b>No. Property</b>	<b>Capital Value in existing state as at 31 August 2009 RMB</b>
5. Room 2805 on the 28th Floor China Resources Building 26 Harbour Road Wanchai Hong Kong	No commercial value
	_____
Sub-total:	_____ Nil
<b>Total:</b>	<b>_____ [86,840,000]</b>

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## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Group I — Property Interest Held Under Development by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2009 RMB
1. A parcel of land, 3 industrial buildings and various structures under construction located at Long Men Village Kuaian Technology Park Economic Technology Development Zone Mawei District Fuzhou City Fujian Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 47,665 sq.m. and 3 industrial buildings and various structures being constructed thereon.</p> <p>As advised by the Group, the total planned gross floor area of the buildings is approximately 38,693 sq.m. and the buildings are scheduled to be completed in late 2009.</p> <p>As advised by the Group, the estimated total construction cost (excluding interior fitting out works) of the buildings is approximately RMB[77,674,000] of which about RMB[71,040,000] was incurred up to the date of valuation.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 30 December 2056 for industrial use.</p>	The property is currently under construction.	[86,840,000]

*Notes:*

- Pursuant to a State-owned Land Use Rights Grant Contract dated 28 September 2005 entered into between the State-owned Land Resources Bureau of Mawei District, Fuzhou City (福州市馬尾區國土資源局) and Fujian Wide Plus Precision Instruments Company Limited (福建上潤精密儀器有限公司), an indirect wholly-owned subsidiary of the Company, the land use rights of a parcel of land with a site area of approximately 53,052 sq.m. (including a site area of 8.08 mu (i.e. approximately 5,387 sq.m.) planned for road, and hence the actual granted site area is 71.5 mu (i.e. approximately 47,665 sq.m.)) were contracted to be granted to Fujian Wide Plus Precision Instruments Company Limited for a term of 50 years for industrial use. The land use rights premium is RMB10,345,400.
- Pursuant to a State-owned Land Use Rights Certificate — Rong Guo Yong (2007) Di No. MD000790 dated 3 November 2007, the land use rights of a parcel of land with a site area of approximately 39,649.5 sq.m. have been granted to Fujian Wide Plus Precision Instruments Company Limited for a term expiring on 30 December 2056 for industrial use.
- Pursuant to a Statement dated 13 May 2008 issued by the State-owned Land Resources Bureau of Mawei District, Fuzhou City, the parcel of land mentioned in note 1 has an actual granted area of approximately 47,665 sq.m. A portion of the land with a site area of approximately 39,649.5 sq.m. has been issued with a Stated-owned Land Use Rights Certificate. As advised by the Company, the application of title certificate of the remaining portion with a site area of approximately 8,015.5 sq.m. is in progress. Due to the issue arised from relocation of the original factory erected thereon, handover of this portion of land is expected in late 2009 after the completion of the relocation.

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## APPENDIX IV

## PROPERTY VALUATION

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4. Pursuant to a Construction Land Planning Permit — Rong Kai Gui Di (2006) No. 43 dated 23 August 2006, the construction project of a site with an area of approximately 53,035.2 sq.m. is in compliance with the city planning requirements.
5. Pursuant to a Construction Work Planning Permit — Rong Kai Gui Jian 2007-062 dated 17 October 2007, construction of buildings with a total gross floor area of approximately 38,693 sq.m. have been approved.
6. Pursuant to a Construction Work Commencement Permit — No. 350105200708010101 dated 30 October 2007, permission has been given to commence the construction of a development with a total gross floor area of approximately 38,693 sq.m.
7. In the course of our valuation, we have not attributed any commercial value to a portion of the land with a site area of approximately 8,015.5 sq.m. which has not obtained any title certificate. However, for reference purpose, we are of the opinion that the capital value of this portion of land as at the date of valuation would be [RMB3,200,000] assuming all relevant title certificates have been obtained and the land could be freely transferred.
8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a) [The State-owned Land Use Rights Grant Contract of the property is legal, valid and enforceable and the Group has paid all the relevant fees and land grant premium.
  - b) The land use rights of the land parcel with a site area of approximately 39,649.5 sq.m. are legally owned by the Group and the Group is entitled to transfer, lease, mortgage or utilize the land use rights in accordance with the terms stipulated in the State-owned Land Use Rights Certificate and the PRC laws.
  - c) According to the State-owned Land Use Rights Grant Contract, the site area of the whole land parcel is approximately 53,052 sq.m. (i.e. 79.58 mu). After deducting the planned road with a site area of 8.08 mu, the actual granted site area of the property is 71.5 mu (i.e. approximately 47,665 sq.m.). The land parcel with a site area of approximately 39,649.5 sq.m. has obtained the State-owned Land Use Rights Certificate. Hence, the remaining portion with a site area of approximately 8,015.5 sq.m. has not obtained any State-owned Land Use Rights Certificate. However, the Group has no legal impediment in obtaining the State-owned Land Use Rights Certificate of this portion of land.
  - d) The Group has obtained requisite relevant certificates and permits in respect of the development of the property. There is no legal impediment in commencement of the construction works.
  - e) The property is not subject to any mortgage and other encumbrances.]



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## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Group II — Property Interests Rented and Occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2009 <i>RMB</i>
2. A parcel of land, various buildings and structures Lot No.15 Kuaian Yanshenqu Economic Technology Development Zone Mawei District Fuzhou City Fujian Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 21,313 sq.m., 8 buildings and structures constructed thereon and completed in various stages between 1998 and 2007.</p> <p>The buildings have a total gross floor area of approximately 30,000 sq.m.</p> <p>The buildings mainly include industrial buildings, dormitory buildings and warehouses.</p> <p>The property is rented by Fujian Wide Plus Precision Instruments Company Limited from an independent third party for a term of 15 years commencing from 1 January 2008 and expiring on 31 December 2022, at an annual rent of HK\$1,000,000 for the first 5 years, exclusive of management fees and other outgoing expenses and is subject to an increment of 10% every 5 years starting from the sixth year of the term.</p>	The property is currently occupied by the Group for production purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement entered into between Fujian Wide Plus Precision Instruments Company Limited and Fuzhou Development Zone Goldigit Fine Chemical Industry Company Limited (福州開發區金澤精細化工有限公司), an independent third party, the property is leased to Fujian Wide Plus Precision Instruments Company Limited for a term of 15 years commencing from 1 January 2008 and expiring on 31 December 2022. The annual rent is HK\$1,000,000 for the first 5 years exclusive of management fees and other outgoing expenses and is subject to an increment of 10% every 5 years starting from the sixth year of the term.
2. We have been provided with a legal opinion regarding the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:
  - a) [The Tenancy Agreement is valid, binding and enforceable under the PRC laws.
  - b) The Tenancy Agreement has been registered with the relevant authority.
  - c) The landlord has obtained proper title of the property and has the rights to lease out the property.
  - d) The property is not pledged or subject to mortgage or any other material encumbrances.
  - e) The existing use of the property complies with prescribed use.]

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## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2009 <i>RMB</i>
3. An office unit on Level 15 Zhong Mei Mansion No. 107 Gu Tian Road Fuzhou City Fujian Province The PRC	<p>The property comprises an office unit on Level 15 of a 27-storey office building completed in 1998.</p> <p>The property has a lettable area of approximately 112 sq.m.</p> <p>The property is rented by Fujian Wide Plus Precision Instruments Company Limited from a connected party for a term commencing from 1 July 2009 and expiring on 1 July 2011, at a monthly rent of RMB5,090 inclusive of management fees and other outgoing expenses.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement entered into between Fujian Wide Plus Precision Instruments Company Limited and He Yuzhu dated 1 July 2009, the property is leased to Fujian Wide Plus Precision Instruments Company Limited for a term commencing from 1 July 2009 and expiring on 1 July 2011 at a monthly rent of RMB5,090 inclusive of management fees and other outgoing expenses.
2. We have been provided with a legal opinion regarding the legality of the Tenancy Agreement to the property issued by the Company’s PRC legal advisers, which contains, inter alia, the following:
  - a) [The Tenancy Agreement is valid, binding and enforceable under the PRC laws.
  - b) The Tenancy Agreement has been registered with the relevant authority.
  - c) The landlord has obtained proper title of the property and has the rights to lease out the property.
  - d) The property is not pledged or subject to mortgage or any other material encumbrances.
  - e) The existing use of the property complies with prescribed use.]

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## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2009 RMB
4. Units 1210 and 1211 on Level 1, Block 1 SIPAI Plaza No. 103 Cao Bao Road Shanghai The PRC	<p>The property comprises 2 office units on Level 1 of a 5-storey office building completed in 1959.</p> <p>The property has a total gross floor area of approximately 74 sq.m.</p> <p>The property is rented by Fujian Wide Plus Precision Instruments Company Limited Shanghai Branch from an independent third party for terms commencing from 15 September 2007 and 25 January 2008, and both expiring on 14 March 2010, at monthly rents of RMB3,084.9 and RMB2,274.3 respectively.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement entered into between Fujian Wide Plus Precision Instruments Company Limited Shanghai Branch and Shanghai Institute of Process Automation Instrumentation, an independent third party, dated 2 September 2007, an office unit with a gross floor area of approximately 45.5 sq.m. is leased to Fujian Wide Plus Precision Instruments Company Limited Shanghai Branch for a term commencing from 15 September 2007 and expiring on 14 March 2010 at a monthly rent of RMB3,084.9, exclusive of management fees.
2. Pursuant to a Tenancy Agreement entered into between Fujian Wide Plus Precision Instruments Company Limited Shanghai Branch and Shanghai Institute of Process Automation Instrumentation, an independent third party, dated 20 March 2008, an office unit with a gross floor area of approximately 28.5 sq.m. is leased to Fujian Wide Plus Precision Instruments Company Limited Shanghai Branch for a term commencing from 25 January 2008 and expiring on 14 March 2010 at a monthly rent of RMB2,274.3, exclusive of management fees and other outgoing expenses.
3. We have been provided with a legal opinion regarding the legality of the Tenancy Agreements to the property issued by the Company’s PRC legal advisers, which contains, inter alia, the following:
  - a) [The Tenancy Agreements are valid, binding and enforceable under the PRC laws.
  - b) The Tenancy Agreements have been registered with the relevant authority.
  - c) The landlord has obtained proper title of the property and has the rights to lease out the property.
  - d) The property is not pledged or subject to mortgage or any other material encumbrances.
  - e) The existing use of the property complies with prescribed use.]

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**APPENDIX IV**
**PROPERTY VALUATION**


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**VALUATION CERTIFICATE**
**Group III — Property Interest Rented and Occupied by the Group in Hong Kong**

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2009 <i>RMB</i>
5. Room 2805 on the 28th Floor China Resources Building 26 Harbour Road Wanchai Hong Kong	<p>The property comprises an office unit on the 28th Floor of a 50-storey commercial building (excluding 3-storey car park basements) completed in 1982.</p> <p>The property has a lettable area of approximately 2,496 sq.ft. (231.88 sq.m.).</p> <p>The property is rented by Wide Plus High Precision Automation Limited from an independent third party for a term of 2 years commencing from 13 November 2007 and expiring on 12 November 2009 with a rent-free period from 13 November 2007 to 12 December 2007, at a monthly rent of HK\$79,872, exclusive of rates and management fees.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

*Note:*

- Pursuant to a Tenancy Agreement entered into between Wide Plus High Precision Automation Limited and China Resources Property Management Ltd., an independent third party, dated 31 January 2008, the property is rented by Wide Plus High Precision Automation Limited for a term of 2 years commencing from 13 November 2007 and expiring on 12 November 2009 at a monthly rent of HK\$79,872, exclusive of rates and management fees.

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## **APPENDIX V                      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 November 2007 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

### **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### **2. ARTICLES OF ASSOCIATION**

The Articles were [conditionally] adopted on [●] 2009. The following is a summary of certain provisions of the Articles:

#### **(a) Directors**

##### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

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Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary,

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commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company’s monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;



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- (ee) if he is prohibited from being a director by law; or
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

### *(viii) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

### *(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

### *(x) Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

## **(b) Alterations to Constitutional Documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

## **(c) Alteration of Capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

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- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

### **(d) Variation of Rights of Existing Shares or Classes of Shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **(e) Special Resolution Majority Required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

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### **(f)    Voting Rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

### **(g)    Requirements for Annual General Meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

### **(h)    Accounts and Audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

### **(i) Notices of Meetings and Business to be Conducted Thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days' notice and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

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### **(j)    Transfer of Shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

### **(k)    Power for the Company to Purchase its Own Shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

### **(l)    Power for Any Subsidiary of the Company to Own Shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

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### **(m) Dividends and Other Methods of Distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

### **(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on

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behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

### **(o) Call on Shares and Forfeiture of Shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

### **(p) Inspection of Register of Members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

### **(q) Quorum for Meetings and Separate Class Meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

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A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

### **(r)    Rights of the Minorities in Relation to Fraud or Oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

### **(s)    Procedures on Liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

### **(t)    Untraceable Members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

### **(u)    Subscription Rights Reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.



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### **3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### **(a) Operations**

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### **(b) Share Capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

#### **(c) Financial Assistance to Purchase Shares of a Company or its Holding Company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

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There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

### **(d) Purchase of Shares and Warrants by a Company and its Subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **(e) Dividends and Distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company’s memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

### **(f) Protection of Minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company’s affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d)

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an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

### **(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **(h) Accounting and Auditing Requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

### **(i) Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 11 December 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

### **(k) Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### **(l) Loans to Directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

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### **(m) Inspection of Corporate Records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company’s Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

### **(n) Winding Up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members’ voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company’s affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator’s duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company’s liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company’s articles of association and published in the Gazette in the Cayman Islands.

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### **(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### **(p) Compulsory Acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **(q) Indemnification**

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## **4. GENERAL**

Conyers Dill & Pearman, the Company’s special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed “Documents available for inspection” in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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## APPENDIX VI

## STATUTORY AND GENERAL INFORMATION

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### A. FURTHER INFORMATION ABOUT THE COMPANY

#### 1. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 29 November 2007. The Company has established a place of business in Hong Kong at Room 2805, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 29 February 2008 under the same address. Mr. Cheung Chuen and Mr. Wong have been appointed as the agents for the acceptance of service of process and notices under the same address. As the Company was incorporated in the Cayman Islands, the corporate structure, and the Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of the Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Islands company law are set out in “Appendix V — Summary of the Constitution of the Company and Cayman Islands Company Law” to this document.

#### 2. Changes in Share Capital

As at the date of incorporation of the Company, its authorised share capital was HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 each. On 29 November 2007, one subscriber’s Share in the Company was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, and Codan Trust Company (Cayman) Limited then transferred to Mr. Wong such one share on the same date.

Pursuant to the written resolutions of all Shareholders passed on 25 August 2008, the authorised share capital of the Company was conditionally increased from HK\$380,000 to HK\$1,000,000,000, by the creation of an additional 9,996,200,000 Shares. However, such increase of the authorised share capital of the Company did not take effect for the conditions to the resolution were not satisfied.

Pursuant to the resolutions passed at the extraordinary general meeting of the Company on 19 March 2009, the authorised share capital of the Company was increased from HK\$380,000 to HK\$502,000 by the creation of 1,220,000 shares of HK\$0.10 each and following the increase, such authorised share capital of HK\$502,000 was redesignated and reclassified (i) as to HK\$500,000 into 5,000,000 Class A Shares of HK\$0.10 each and (ii) as to HK\$2,000 into 2,000,000 Class B Shares of HK\$0.001 each having the rights and privileges and subject to the restrictions set out in the then Articles. Class B Shares will be redeemed and cancelled in accordance with the then Articles in the manner set out in the section headed “History and Development — Further Reorganisation and Investments by Standard Bank Plc and Orchid IV, L.P. and Orchid IV Co-Investment, Limited”.

Save as disclosed in this document, there has been no alteration in the share capital of the Company since its incorporation.

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## APPENDIX VI

## STATUTORY AND GENERAL INFORMATION

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### 3. [●]

### 4. Corporate Reorganisation

For further details of the Group’s reorganisation in the Track Record Period, please refer to the sub-section headed “History and Development — Reorganisation” and “Further Reorganisation and Investments by Standard Bank Plc and Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited” in this document.

### 5. Changes in the Share Capital of Subsidiaries of the Company

The Company’s subsidiaries are referred to in the accountants’ report for the Company, the text of which is set out in Appendix I to this document. Save as mentioned in the paragraph headed “Corporate Reorganisation” in this Appendix [and “Appendix I — Accountant’s Report” to this document], there has been no alteration in the share capital of the subsidiaries of the Company within the two years immediately preceding the date of this document.

### 6. Repurchase by the Company of its Own Securities

#### (a) *Stock Exchange Rules*

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

##### (i) *Shareholders’ approval*

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to the written resolutions of all Shareholders passed on 25 August 2008, a general mandate was conditionally granted to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued immediately following completion of the [●] and the Capitalisation Issue (excluding shares which may be issued upon exercise of the [●]). However, such general mandate did not take effect for the conditions to the resolution were not satisfied. Pursuant to a resolution in writing passed by all the shareholders of the Company on [●] 2009, a general unconditional mandate (the “Repurchase Mandate”) was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued immediately following completion of the [●] and the Capitalisation Issue (excluding shares which may be issued upon exercise of the [●]), such mandate to expire at the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held, or the date on which such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first.

##### (ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with a company’s constitutive documents and the laws of the jurisdiction in which the company is incorporated or otherwise established.

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***(b) Reasons for repurchases***

The Directors believe that it is in the best interest of the Company and its Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders.

***(c) Funding of repurchases***

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its Memorandum of Association and Articles of Association and the applicable laws of the Cayman Islands. On the basis of the current financial position of the Group as disclosed in this document and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this document. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of [●] Shares in issue immediately after the [●] of the Shares, would result in up to [100,000,000] Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

***(d) General***

None of the Directors nor, to the best of their knowledge and belief having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

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

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

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



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### B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

#### 7. Summary of Material Contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this document and are or may be material:

- (a) Equity Transfer Agreement (股權轉讓協議) dated 27 August 2007 entered into between Wide Plus and Jetbright Enterprises Limited in respect of sale of Fujian Electronic, a wholly owned subsidiary of Wide Plus, at nominal consideration of HK\$1;
- (b) Equity Transfer Agreement (股權轉讓協議) dated 27 August 2007 entered into between Wide Plus and Plentipower Limited in respect of sale of Fuzhou Shanglun, a wholly owned subsidiary of Wide Plus, at nominal consideration of HK\$1;
- (c) Equity Transfer Agreement (股權轉讓協議) dated 10 January 2008 entered into between Wide Plus and Wide Plus High Precision in respect of sale and purchase of entire shareholding of Fujian Wide Plus, at the consideration of Wide Plus High Precision assuming all the debt owed to Mr. Wong by Wide Plus;
- (d) a share swap agreement relating to Wide Plus High Precision dated 7 March 2008 entered into between the Company, Mr. Wong, Mr. Wong Sun Hoi, Mr. Ng Hiu King, Allied Basic Limited, Investidea Investments Limited and Sunny Zone Limited;
- (e) AB Sale and Purchase Agreement entered into among Fortune Plus, the Company and Allied Basic Limited dated 8 July 2009;
- (f) On-loan Agreement entered into between Fortune Plus and the Company dated 8 July 2009;
- (g) Senior Term Facility Agreement entered into among, inter alia, the Company, Wide Plus High Precision, Mr. Wong, Standard Bank Asia Limited and Standard Bank plc dated 8 July 2009;
- (h) WPHP Loan Agreement entered into between the Company and Wide Plus High Precision dated 8 July 2009;
- (i) CB Subscription Deed entered into between the Company, Fortune Plus, Existing Shareholders, Standard Bank Asia Limited and Standard Bank plc dated 8 July 2009;
- (j) Fixed and Floating Charge executed by Fortune Plus in favour of the Company dated 8 July 2009;
- (k) Fixed and Floating Charge executed by the Company and Wide Plus High Precision in favour of Standard Bank Asia Limited dated 8 July 2009;
- (l) Share Charge in relation to 2,128,760 Shares and 10,000 shares in Wide Plus High Precision executed by Mr. Wong and the Company in favour of Standard Bank Asia Limited dated 8 July 2009;

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- (m) Agency Agreement entered into between the Company, Mr. Wong, Standard Bank Asia Limited and Standard Bank plc dated 8 July 2009;
- (n) Guarantee and Indemnity executed by Wide Plus High Precision in favour of Standard Bank Asia Limited dated 8 July 2009;
- (o) Security Trust and Intercreditor Deed entered into between the Company, Wide Plus High Precision, Mr. Wong, Standard Bank Asia Limited and Standard Bank plc dated 8 July 2009;
- (p) Certificate of convertible bonds in the principal amount of US\$35,000,000 issued by the Company to Standard Bank Plc dated 10 July 2009;
- (q) First Amendment Deed to the Subscription Deed entered into between the Company, Mr. Wong, Standard Bank Plc and Standard Bank Asia Limited dated 14 August 2009;
- (r) Consent to First Amendment to Subscription Deed signed by Wide Plus High Precision dated 14 August 2009;
- (s) Certificate of convertible bonds in the principal amount of US\$18,000,000 issued by the Company to Standard Bank Plc dated 17 August 2009;
- (t) Certificate of convertible bonds in the principal amount of US\$16,660,000 issued by the Company to Orchid Asia 1 dated 17 August 2009;
- (u) Certificate of convertible bonds in the principal amount of US\$340,000 issued by the Company to Orchid Asia 2 dated 17 August 2009;
- (v) Variation Agreement entered into among the Company, Mr. Wong, Mr. Wong Sun Hoi, Mr. Ng Hiu King, Investidea Investments Limited, Sea Princess International Investments Limited, Fortune Plus Holdings Limited, Sunny Zone Limited, Standard Bank plc., Standard Bank Asia Limited, Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited dated 25 September 2009;
- (w) a deed of indemnity in respect of estate duty and tax dated [●] entered into between the Company and the Controlling Shareholder under which the Controlling Shareholder agreed to give certain indemnities in relation to certain estate duty and tax subject to and upon the terms and conditions set out therein; and
- (x) [●]

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### 8. Intellectual Property Rights

#### (a) Patent

[As at the Latest Practicable Date], Fujian Wide Plus was the registered proprietor and beneficial owner of the following patents:

Patent	Place of registration	Registration no.	Expiry date (DD.MM.YY)
一種石英錶電機固定結構	PRC	ZL200420078516.X	2.8.2014
一種石英錶電機固定結構	PRC	ZL200420078515.5	2.8.2014
手錶機芯的主夾板	PRC	ZL200430100774.9	28.9.2014
手錶機芯的離合杆	PRC	ZL200430100777.2	28.9.2014
手錶機芯的正極片	PRC	ZL200430100776.8	28.9.2014
一種液晶顯示器背光照明的導光板	PRC	ZL200420078095.0	23.7.2014
手錶機芯的上夾板	PRC	ZL200430100775.3	28.9.2014
一種石英錶正極片上離合杆的彈臂的定位柱	PRC	ZL200520068819.8	27.1.2015
一種日曆手錶機芯中的快撥日輪的限位裝置	PRC	ZL200520072583.5	7.6.2015
一種日曆手錶的撥日裝置	PRC	ZL200520072584.X	7.6.2015
手錶機芯夾板(一)	PRC	ZL200630080783.5	14.2.2016
手錶機芯夾板(二)	PRC	ZL200630081322.X	5.3.2016
一種手錶傳動鏈脫開裝置中的離合杆	PRC	ZL02288078.X	25.11.2012
手錶機芯殼套	PRC	ZL00332829.5	13.7.2010
雙時同芯錶芯	PRC	ZL02219139.9	1.3.2012
手錶機芯正極片	PRC	ZL00332830.9	13.7.2010
日曆手錶的止秒結構	PRC	ZL03278777.4	22.9.2013
石英錶機芯主夾板	PRC	ZL00318846.9	25.12.2010
一種石英錶止秒裝置	PRC	ZL01263167.1	7.10.2011
一種手錶機芯的時輪固定結構	PRC	ZL01237643.4	26.4.2011
一種石英錶電機固定結構	PRC	ZL01237583.7	23.4.2011
一種手錶秒輪	PRC	ZL02288071.2	25.11.2012
一種多功能飲水機	PRC	ZL03278012.5	20.8.2013
一種氣液混合反應器	PRC	ZL03278011.7	20.8.2013
流量計頭	PRC	ZL99319006.5	23.12.2009
一種自適應的石英行針表機芯	PRC	ZL200720008678.X	5.11.2017
一種新型的電容式壓力變送器	PRC	ZL200720008538.2	24.10.2017
一種新型的電容式差壓傳感器	PRC	ZL200720008537.8	24.10.2017
用恒流源及高頻變壓器實現無源4~20mA隔離器	PRC	ZL200720008536.3	24.10.2017
以TRMS信號轉換模塊為核心的兩線制真有效值變送器	PRC	ZL200720008637.0	31.10.2017
電容式差壓變送器	PRC	ZL200720008165.9	6.9.2017

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### (b) Software Copyright

[As at the Latest Practicable Date], Fujian Wide Plus was the owner of the following software copyright:

Copyright	Place of registration	Registration no.	Expiry date (DD.MM.YY)
WP系列數字顯示位控儀錶軟件 V5.18	PRC	軟著登字第077383號 2007SR11388	30.7.2057
WP系列智能三衝量調節器軟件 V1.0	PRC	軟著登字第077384號 2007SR11389	30.7.2057
高耗能企業加熱爐節能管理信息系統V1.0	PRC	軟著登字第088381號 2008SR01202	16.1.2058
抽油機監管理系統V1.0軟件	PRC	軟著登字第091903號 2008SR04724	2.3.2058

### (c) Trade Marks

[As at the Latest Practicable Date], Fujian Wide Plus was the registered proprietor and beneficial owner of the following trade marks:

Trade Mark	Place of Registration	Classes	Registration no.	Expiry date (DD.MM.YY)
<b>Wideplus</b>	PRC	9	1714285	13.2.2012
上潤	PRC	9	2017399	6.10.2013
<b>WP</b> Wide Plus	PRC	9	3212328	6.8.2013
上潤企業	PRC	9	3642332	6.2.2015
 WIDE PLUS	PRC	9	3690031	6.7.2015
 Wide Plus	PRC	9	3690032	6.7.2015
上潤企業	PRC	14	3642331	20.8.2015
 Wide Plus	PRC	14	3869057	27.12.2015

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Trade Mark	Place of Application	Classes	Registration No.	Expiry date (DD.MM.YY)
上潤	PRC	35	3126143	27.6.2013
<b>Wideplus</b>	PRC	35	3126145	27.6.2013
<b>WP</b> Wide Plus	PRC	35	3212327	13.1.2014

[As at the Latest Practicable Date], the Company was the registered proprietor and beneficial owner of the following trade marks:

Trade Mark	Place of Registration	Classes	Registration no.	Expiry date (DD.MM.YY)
	Hong Kong	9	301141091	16.6.2018
	Hong Kong	14	301141091	16.6.2018

**Class Specification in the PRC**

- 9 Data processing, computer software (recorded), computer peripheral device, test and measuring device, test and measuring instrument, electrical test and measuring instrument, sensor, thermal controller, number indicator, alarm
- 14 Clock, watch, electronic watch, electronic all-age desk calendar, clock case, ormolu products, household utensils of precious metal, artwork of precious metal, artificial jewel
- 35 Advertising, organisation of trade fairs for commercial or advertising purposes, business management and organisation consultancy, import export agency, auctioneering, sales promotion (for others), management consultancy, systemization of information in computer databases, rental (office machines and equipment), business information

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### Class Specification in Hong Kong

- 9 Meters; measuring instruments; precision measuring apparatus; data processing apparatus; high precision industrial automation instruments
- 14 Horological and chronometrical instruments; chronometers; quartz watch movements; watches and parts thereof

[As at the Latest Practicable Date], the Company had applied for the registrations of the following trade marks:

Trade Mark	Place of Application	Classes	Application No.	Date of Application Acceptance (DD.MM.YY)
	PRC	9	6785962	14.7.2008
	PRC	14	6785961	14.7.2008

[As at the Latest Practicable Date], Fujian Wide Plus had applied for the registration of the following trade marks:

Trade Mark	Place of Application	Classes	Application No.	Date of Application Acceptance (DD.MM.YY)
WIDE PLUS	PRC	14	ZC6395642SL	26.12.2007

### (d) Domain Names

[As at the Latest Practicable Date], Fujian Wide Plus was the owner of the following domain name:

Domain Name	Date of Registration (DD.MM.YY)
chpag.net	21.8.2008

Save as disclosed herein, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the Group’s business.

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**C. FURTHER INFORMATION ABOUT THE DIRECTORS, SENIOR MANAGEMENT AND STAFF**

**9. Disclosure of Interests**

(a) *Interests and short positions of the Directors and chief executives of the Company*

Immediately following completion of the [●] and the Capitalisation Issue (but taking no account of the Shares which may be taken up pursuant to the [●] and the Shares to be issued pursuant to the exercise of the [●]), the interests and short positions of the Directors and chief executives of the Company in the share capital, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or deemed to have taken under such provisions) once the Shares are listed, or will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:

<b>Name of Director</b>	<b>Number of Shares</b>	<b>Type of interests</b>	<b>Approximate percentage of the Shares in issue effectively held</b>
Mr. Wong	[●]	Personal	[●]%
	[●] <sup>(1)</sup>		[●]% <sup>(1)</sup> (in total) [●]%

*Note:*

(1) Such number of Shares is subject to the shareholding of Mr. Wong in Fortune Plus.

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### (b) *Interests and short positions of substantial shareholders*

So far as the Directors are aware, immediately following completion of the [●] (but without taking into account the exercise of the [●]), the persons who will have an interest or short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV the SFO, or who will be directly or indirectly interested in 10% or more of the issued and outstanding share capital then in issue carrying rights to vote in all circumstances at our general meetings, together with any other shareholders beneficially owning more than 5% of the outstanding or issuable Shares, are as follows:

Name	Long/Short Position	Capacity/Nature of Interest	Number of Shares that person has or is deemed to have interest in immediately following completion of the [●] and the Capitalisation Issue	Approximate percentage of the interest in the issued share capital of the Company
Mr. Wong	Long Position	Beneficial owner	[●]	[●]%
	Long Position	Interest in a controlled corporation	[●] <sup>(1)(3)</sup>	[●]% in total [●]%
Mr. Wong Sun Hoi	Long Position	Beneficial owner	[●]	[●]%
	Long Position	Indirect interest	[●] <sup>(2)(3)</sup>	[●]% in total [●]%
Fortune Plus <sup>(3)</sup>	Long Position	Beneficial owner	[●]	[●]%
Standard Bank Plc	Long Position	Beneficial owner	[●]	[●]%
Orchid Asia IV, L.P.	Long Position	Beneficial owner	[●]	[●]%

*Notes:*

- (1) These 96,800,000 Shares are indirectly held by Mr. Wong through Fortune Plus (in which Mr. Wong is deemed to be interested by virtue of his 66.6% equity interest in Fortune Plus for the purposes of the SFO).
- (2) Fortune Plus is beneficially owned by Mr. Wong Sun Hoi as to 10.99% and Mr. Wong Sun Hoi is regarded as interested in 10.99% of the shareholding owned by Fortune Plus.
- (3) Fortune Plus is a company incorporated in the British Virgin Islands whose share capital is owned as to [66.6]% by Mr. Wong, [10.99]% by Mr. Wong Sun Hoi, [7.55]% by Mr. Ng Hiu King, [7.73]% by Investidea Investments Limited and [7.13]% by Sea Princess International Investments Limited.



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**10. Particulars of Service Contracts**

Each of the executive Directors has entered into a service agreement with the Company for an initial term of 3 years respectively and shall continue thereafter from year to year until terminated by either party with three months’ notice in writing served on the other side. Each of the independent non-executive Directors is appointed for an initial term of 1 year commencing from their respective dates of appointment and shall continue thereafter from year to year until terminated by either party with 3 months’ notice in writing served on the other side. The aggregate annual fees payable to the independent non-executive Directors is HK\$360,000 per year. The basic annual salaries of the Directors are as follows:

<b>Name</b>	<b>Annual salary (HK\$)</b>
Mr. Wong	1,040,000
Mr. Zou Chong	390,000
Mr. Su Fang Zhong	390,000
Mr. Cheung Chuen	910,000
Ms. Ji Qin Zhi	120,000
Dr. Hu Guo Qing	120,000
Mr. Chan Yuk Hiu Taylor	120,000

**11. Directors’ Remuneration**

The aggregate amount of fees, salaries and allowances, share-based payments and retirement benefit scheme contributions (the “Remuneration”) incurred by the Group to the Directors, collectively, for each of the years during the Track Record Period were RMB[0.3] million, RMB[2.6] million and RMB[9.9] million, respectively.

The expecting amount of the Remuneration of the Directors (excluding share-based payments), collectively, for the year ending 30 June 2010 is approximately RMB2.6 million (equivalent to approximately [HK\$[2.9] million]). The Remuneration is reflecting (i) the remuneration packages of similar capacity and responsibilities in the Group and/or in the market and (ii) the responsibilities of the staff concerned. In addition, there was an equity-settled share-based compensation paid to the Directors of approximately RMB[8.8] million during the financial year ended 30 June 2009. Since the equity-settled share-based compensation scheme was terminated on 18 August 2009, the equity-settled share-based compensation for the financial year ending 30 June 2010 will be at nil amount.

Save as disclosed above, no other payments have been paid or are payable, during the Track Record Period, by the Company or any of its subsidiaries to the Directors.

**12. Personal Guarantees**

Save and except as disclosed in the sections headed “History and Development”, “Financial Information” and Appendix I to this document, no executive Directors or related parties have provided guarantees for debts and liabilities due by certain members of the Group.

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### 13. [●]

### 14. Disclaimers

Save as disclosed in this document:

- (a) none of the Directors nor chief executives of the Company has any interest, any long or short positions in Shares and underlying Shares, listed or unlisted derivatives of, or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or deemed to have taken under such provisions) once the Shares are listed, or will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed;
- (b) save as disclosed in the paragraph headed “Particulars of Service Contracts” above, there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation) between the Directors and any member of the Group;
- (c) [●]
- (d) [●]
- (e) [●]
- (f) [●]
- (g) so far as known to the Directors, none of the Directors, their respective associates (as defined in the Listing Rules) nor Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

### D. SHARE OPTION SCHEME

#### 15. Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was terminated pursuant to a resolution passed in the meeting of the Company on 18 August 2009. There were 50,000,000 options granted on 21 April 2008 before termination of the Pre-IPO Share Option Scheme and no such option has been exercised. On 21 January 2009, all of the said 50,000,000 options granted were unconditionally cancelled by the grantees of the Pre-IPO Share Option Scheme.

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### 16. Share Option Scheme

#### *(a) Summary of terms*

Pursuant to a resolution in writing passed by all the shareholders of the Company on 25 August 2008, a share option scheme was conditionally adopted. However, such share option scheme did not take effect for the conditions to the resolution were not satisfied.

Pursuant to a resolution in writing passed by all the shareholders of the Company on [●] 2009, the Share Option Scheme was conditionally adopted and a summary of its principal terms are set out as follows:

#### *(i) Purposes of the scheme*

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

#### *(ii) Who may join*

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) (the “Eligible Employee”) of any member of the Group or any entity (“Invested Entity”) in which any member of the Group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of any member of the Group or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of any member of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be by any member of the Group or any Invested Entity;

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- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity.

For avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by the Directors from time to time on the basis of the Directors’ opinion as to his contribution to the development and growth of the Group.

(iii) *Maximum number of the Shares*

- (aa) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the [●] Date (“Scheme Limit”). On the basis of a total of [●] Shares in issue as at the [●] Date (including those Shares to be issued pursuant to the Capitalisation Issue and the [●] but without taking into account of any Shares which may fall to be issued upon the exercise of or any options which may be granted under the Share Option Scheme), the Scheme Limit will be 100,000,000 Shares.
- (bb) Subject to (aa) above but without prejudice to (cc) below, the Company may seek approval of its Shareholders in general meeting to refresh the Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted. The circular sent by the Board of the Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (cc) Subject to (aa) above and without prejudice to (bb) above, the Company may seek separate Shareholders’ approval in general meeting to grant options beyond the Scheme Limit or, if applicable, the extended limit referred to in (bb) above to participants specifically identified by the Board of the Company before such approval is sought. In such event, the Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how

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the terms of the options serve such purpose and such other information required under Rule 17.02(2) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

*(iv) Maximum entitlement of each participant*

Subject to (iii) above, the total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period up to the date on which such option is offered to each grantee shall not exceed 1% of the Company’s issued share capital for the time being (“Individual Limit”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in the general meeting with such grantee and his associates abstaining from voting.

*(v) Grant of options to the Directors, chief executive or substantial shareholders of the Company or its respective associates*

(aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of its respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associate is the proposed grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders in general meeting. The Company must send a circular to the Shareholders. All the connected persons of the Company must abstain from voting at such general meeting. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director of the Company or any of its respective associates must be approved by the Shareholders in general meeting.

*(vi) Time of acceptance and exercise of option*

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

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An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

*(vii) Performance targets*

A grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

*(viii) Subscription price for the Shares and consideration for the option*

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange’s daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

*(ix) Ranking of the Shares*

(aa) The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment of the Shares (the “Allotment Date”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Allotment Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on our register of members as the holder thereof.

(bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in our ordinary equity share capital of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of our share capital from time to time.

*(x) Restrictions on the time of the offer for the grant of options*

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in newspapers. In particular, during the period

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commencing one month immediately preceding the earlier of (aa) the date of the Board meeting for the approval of the Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

The Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by us.

*(xi) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

*(xii) Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation or termination and shall not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation or termination, which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

*(xiii) Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

*(xiv) Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence

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which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

*(xv) Rights on breach of contract*

If the Directors shall at their absolute discretion determine that the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part; his option will lapse automatically on the date on which the Directors have so determined.

*(xvi) Rights on a general or partial offer, take over, share repurchase or scheme of arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, with appropriate changes, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to the Shareholders, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be.

*(xvii) Rights on winding up, compromise or arrangement*

In the event of a resolution being proposed for the voluntary winding-up of the Company or a compromise or arrangement between the Company and its members or creditors being proposed for the reconstruction or amalgamation, during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time not less than four Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and the Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner.

*(xviii) Adjustments to the subscription price*

In the event of a capitalisation of profits or reserves, rights issue, subdivision or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable or the Share Option Scheme remains in effect, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number or



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nominal amount of Shares to which the Share Option Scheme relates and/or the subscription price of the option concerned and/or the number of Shares comprised in an option granted under the Share Option Scheme provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such adjustment; and (ii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules and the supplementary guidance set out in the letter issued by Stock Exchange dated 5 September 2005.

*(xix) Cancellation of options*

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

Where any option granted to a grantee is cancelled before it has been exercised and new option is granted to the same grantee, the issue of such new options may only be made with available unissued Options (excluding any cancelled option) within the Scheme Limit or the limits approved by the Shareholders.

*(xx) Termination of the Share Option Scheme*

The Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*(xxi) Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

*(xxii) Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi) above; and
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii) above.

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*(xxiii) Miscellaneous*

- (aa) The Share Option Scheme is conditional on the [●], such number of Shares to be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme, representing 10% of the Shares in issue being 100,000,000 Shares.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Grant of option

As at the date of this document, no options have been granted or agreed to be granted under the Share Option Scheme.

*(xxiv) Present status of the Share Option Scheme*

[As at the Latest Practicable Date], no option has been granted or agreed to be granted under the Share Option Scheme.

## E. OTHER INFORMATION

### 17. Estate Duty, Tax and Other Indemnities

The Controlling Shareholder has pursuant to a deed of indemnity in respect of estate duty and tax referred to in the sub-paragraph headed “Summary of material contracts” under the paragraph headed “Further information about the business of the Group” in this Appendix, given indemnities to the Company in connection with, amongst other things, any taxation which might be payable by the Company or any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the [●] becomes unconditional. The deed of indemnity in respect of estate duty and tax shall, however, not apply, amongst other things, under the following circumstances,

- (a) to the extent that provision or reserve has been made for such taxation liability in the audited consolidated accounts of the Group for the Track Record Period;

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- (b) to the extent that such taxation liability would not have arisen but for any voluntary act of the Company or any member of the Group after the date on which the [●] becomes unconditional which the Company or the relevant member of the Group ought reasonably to have known would give rise to such taxation liability but excluding any act:
  - (i) carried out pursuant to a legally binding obligation of the Company or any member of the Group entered into or incurred on or before the date on which the [●] becomes unconditional; or
  - (ii) taking place with the written approval of the Controlling Shareholder or pursuant to the [●] or any document executed pursuant to the [●]; or
  - (iii) occurring in the ordinary course of business of the Company or the relevant member of the Group; or
- (c) to the extent that such taxation liability arises in the ordinary course of business of the Company or any member of the Group after 30 June 2009 up to and including the date on which the [●] becomes unconditional; or
- (d) to the extent that such taxation liability arises or is increased as a result only of:
  - (i) an increase in rates of taxation made after the date on which the [●] becomes unconditional with retrospective effect; or
  - (ii) the passing of any legislation after the date on which the [●] becomes unconditional with retrospective effect.

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### 18. Litigation

[[As at the Latest Practicable Date], no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.]

### 19. [●]

### 20. Preliminary Expenses

The estimated preliminary expenses of the Company are approximately HK\$100,000 and are payable by the Company.

### 21. [●]

### 22. [●]

### 23. [●]

### 24. Miscellaneous

- (a) Save as disclosed in this document:
  - (i) within the two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
  - (iii) within the two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
  - (iv) no founder, management shares or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued.
- (b) The Directors confirm that they have performed sufficient due diligence on the Group to ensure that since 30 June 2009 (being the date to which the latest audited consolidated financial statements of the Group were made up) and taking into account the fact that there are significant adverse changes in the global and the PRC economies, there has been no material adverse change in the financial or trading position of the Group which would materially affect the information shown in the accountants’ report of the Group set out in Appendix I to this document.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

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- (d) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company’s Hong Kong branch share registrar and transfer office.

25. [●]